CITY OF OAKLAND
CALIFORNIA

SINGLE AUDIT REPORT
FISCAL YEAR ENDED JUNE 30, 2005

CITY OF OAKLAND
SINGLE AUDIT REPORT

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Department of Health & Human Services
Public Works Agency
Oakland Police Department
Oakland Fire Department

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2005

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Honorable Mayor and Members
of the City Council
City of Oakland, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Oakland Base Reuse Authority (OBRA), which represent 4%, 11%, and 3%, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for OBRA, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.*

www.maciasgini.com

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we and the other auditors express no opinion on them.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
December 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Oakland's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information contained in the City's financial statements and related notes and our letter of transmittal that precedes this section.

FINANCIAL HIGHLIGHTS

- The City's total assets exceeded its total liabilities by $657.6 million as of June 30, 2005, compared to $552.7 million at June 30, 2004. This represents an increase of 19% ($104.9 million) compared to the previous year. The largest portion of the City's net assets (64%) reflects its $418.0 million of investments in capital assets for governmental and business type activities, net of related debt. Of the remaining balance, (44%) reflects $292.4 million in funding for debt service, capital projects and other continuing development projects for the City, and a deficit in unrestricted assets of ($52.9) million or (-8%).

- The City's cumulative fund balances grew by 31% ($213.3 million) to $900.6 million compared to $687.3 million for the prior fiscal year. This growth is primarily attributed to: (1) the combined increase of $183.3 million or 28% in pooled and restricted cash and investments as a result of unspent Lease Revenue Bonds, Series 2005 proceeds issued on June 21, 2005; (2) the improved revenue collections as a result of double digit increases in property taxes; and (3) the 3% reduction in overall governmental liabilities excluding long-term debts.

- As of June 30, 2005, the City had total long-term obligations outstanding of $1.87 billion compared to $1.68 billion outstanding for the prior fiscal year, an increase of 11%. Of this amount, $227.0 million is general obligation bonds backed by the full faith and credit of the City. The remaining $1.64 billion is comprised of various long-term debt instruments including accruals of year-end estimates for other long-term liabilities.

- The City's General Fund unreserved/undesignated fund balance at June 30, 2005 was $46.3 million compared to $39.8 million for the previous year, an increase of $6.5 million or 16%, attributed primarily to conservative revenue forecasting for real estate transfer taxes. The unreserved/undesignated fund balance exceeded the City Council's 7.5% reserve policy by 43%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to introduce the City's basic financial statements. The City's basic financial statements consist of three components: (1)

government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to the financial statements for a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, life enrichment, community and economic development, and public works. The business-type activities of the City include the sewer service system and the parks and recreation.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects, debt service, and general fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, federal and state grant special revenue fund, Oakland Redevelopment Agency (Agency) as a blended component unit of the City, and municipal capital improvement fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund in the required supplementary information to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers, either outside customers or internal units or departments of the City. Proprietary funds provide the same type of information shown in the government-wide statements only in more detail. The City maintains the following two types of proprietary funds:

> ***Enterprise funds*** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Sewer Service System and the Parks and Recreation operations. The Sewer Service Fund is considered to be a major fund of the City.
>
> ***Internal service funds*** are used to report activities that provide services and supplies for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, radio and communication equipment, facilities management, printing and reproduction, and central stores. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined

into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of employees and parties outside the City. The Oakland Municipal Employees Retirement System (OMERS) Fund, the Police and Fire Retirement System (PFRS) Fund are reported as pension trust funds. The Private Purpose Trust Fund along with the pension trust funds are reported as trust funds since their resources are not available to support the City's own programs. For this reason, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information, other than this discussion and analysis, concerning the City's progress in funding its obligation to provide pension benefits to its employees and budget-to-actual information for the City's general fund. This required supplementary information is presented immediately following the notes to the basic financial statements.

The combining statements referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are immediately following the required supplementary information along with budgetary comparison schedules.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the City's financial position. The City's total assets exceeded its liabilities as of June 30, 2005 by $657.6 million compared to $552.7 million as of June 30, 2004, an increase of $104.9 million. The largest portion of the City's net assets (64%) reflects its $418.0 million of investments in capital assets for governmental and business type activities net of related debt. Of the remaining balance, (44%) reflects $292.4 million in funding for debt service, capital projects and other continuing development projects for the City, and a deficit in unrestricted assets of ($52.9) million or (-8%).

City of Oakland's Net Assets
June 30, 2005
(In Thousands)

	Governmental Activities	Business-type Activities	2005 Total	2004 Total
Assets:				
Current and other assets	$1,651,554	$ 61,075	$1,712,629	$1,443,658
Capital assets	839,375	121,240	960,615	946,004
TOTAL ASSETS	2,490,929	182,315	2,673,244	2,389,662
Liabilities:				
Long-term liabilities outstanding	1,794,616	70,814	1,865,430	1,677,195
Other liabilities	149,248	991	150,239	159,745
TOTAL LIABILITIES	1,943,864	71,805	2,015,669	1,836,940
Net assets:				
Invested in capital assets, net of related debt	310,633	107,396	418,029	502,955
Restricted net assets:				
Debt service	28,375	-	28,375	70,562
Pension obligations	175,247	-	175,247	31,048
Urban redevelopment and housing	84,752	-	84,752	189,555
Other purposes	4,041	-	4,041	24,861
Unrestricted	(55,983)	3,114	(52,869)	(266,259)
TOTAL NET ASSETS	$ 547,065	$ 110,510	$ 657,575	$ 552,722

The City's investment in capital assets of $418.0 million, decreased by $84.9 million compared to the previous fiscal year, is attributed to the increase in long-term debt related to capital assets. Other factors that contributed to the reduction in investment in capital assets include annual deduction for depreciation expense and asset retirements, net of new additions. The City's restricted net assets totaling $292.4 million represents resources that are subject to external restrictions on how they may be used. The unrestricted deficit of ($52.9) million is primarily caused by the Agency, which issues bonds and other indebtedness to fund urban development and housing projects that are not capitalized as assets.

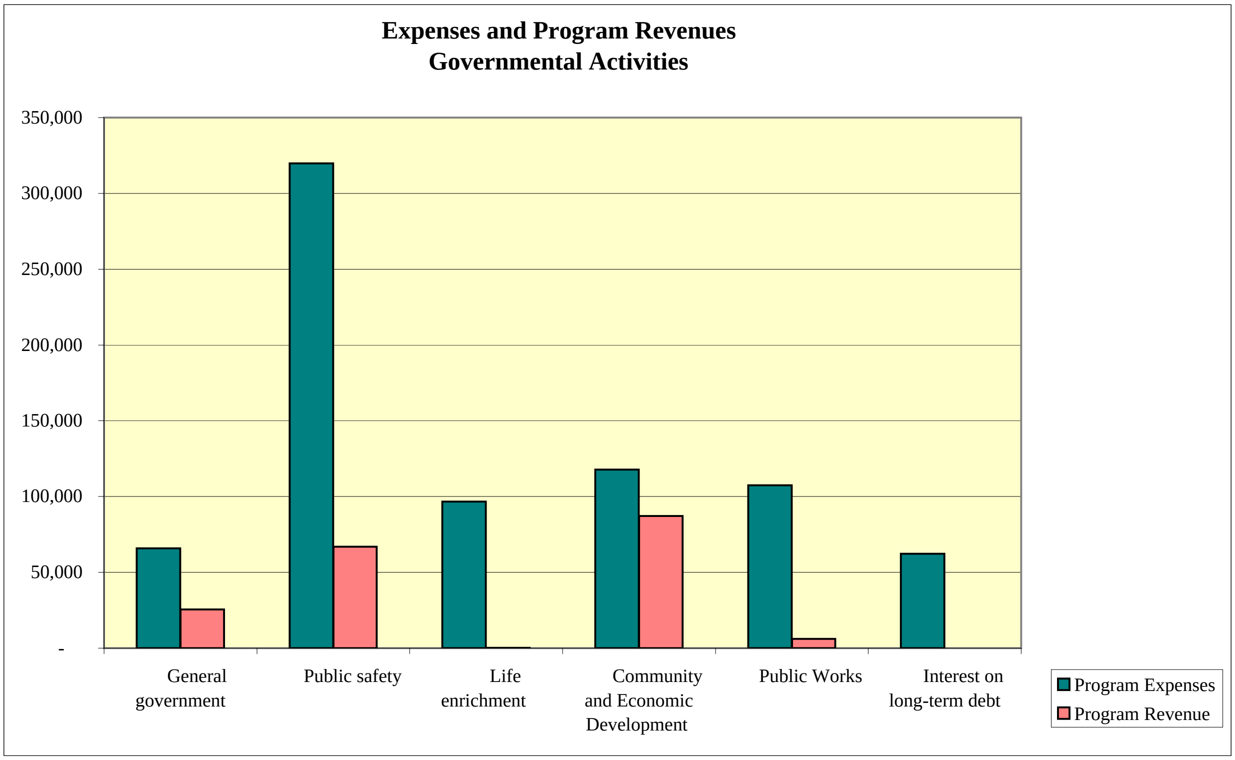
Governmental activities. The City's change in net assets of $104.9 million for the year ended June 30, 2005 represents an increase of $72.0 million compared to $32.9 million for the prior fiscal year. The key elements of this increase are listed below.

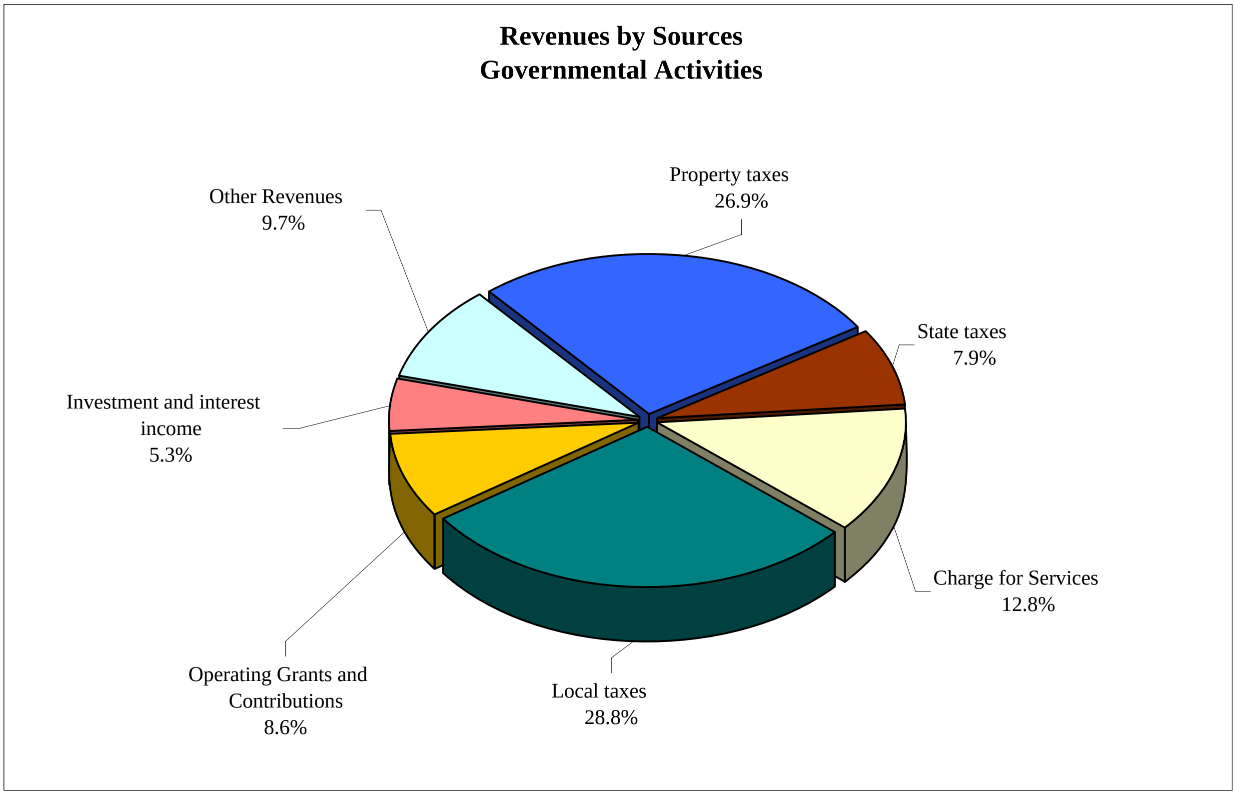
Changes in Net Assets
June 30, 2005
(In Thousands)

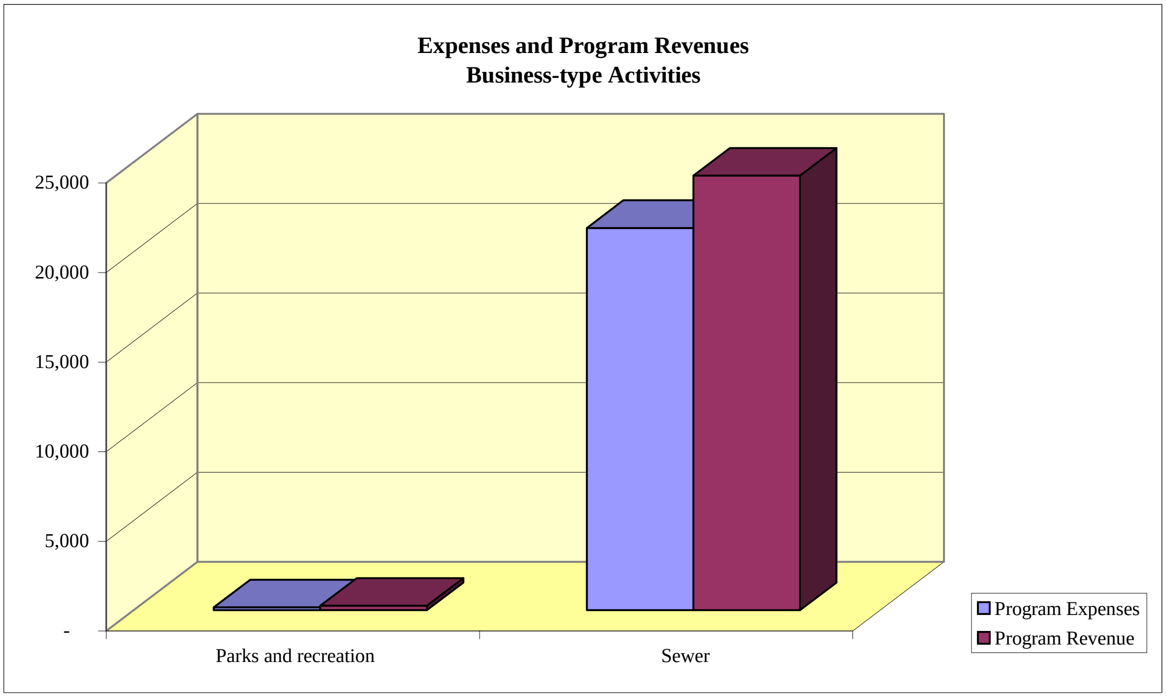
	Governmental Activities	Business-type Activities	2005* Total	2004 * Total
Revenues:				
Program revenues:				
Charges for services	$111,467	$ 24,496	$ 135,963	$ 87,480
Operating grants and contributions	74,694	-	74,694	78,965
Capital grants and contributions	-	-	-	10,366
General revenues:				
Property taxes	234,127	-	234,127	200,731
State taxes	68,451	-	68,451	72,906
Local taxes	251,301	-	251,301	197,873
Interest and investment income	46,063	707	46,770	5,660
Other	84,850	-	84,850	117,238
TOTAL REVENUES	870,953	25,203	896,156	771,219
Expenses:				
General government	65,865	-	65,865	67,069
Public safety	319,908	-	319,908	297,869
Life enrichment	96,649	-	96,649	102,314
Community & economic development	117,689	-	117,689	121,160
Public works	107,457	-	107,457	70,369
Interest on long-term debt	62,238	-	62,238	58,020
Sewer	-	21,337	21,337	20,597
Parks and recreation	-	160	160	159
TOTAL EXPENSES	769,806	21,497	791,303	737,557
Change in net assets before transfers	101,147	3,706	104,853	32,862
Transfers	621	(621)	-	-
Change in net assets	101,768	3,085	104,853	32,862
Net assets at beginning of year	445,297	107,425	552,722	519,860
NET ASSETS AT END OF YEAR	$547,065	$ 110,510	$ 657,575	$ 552,722

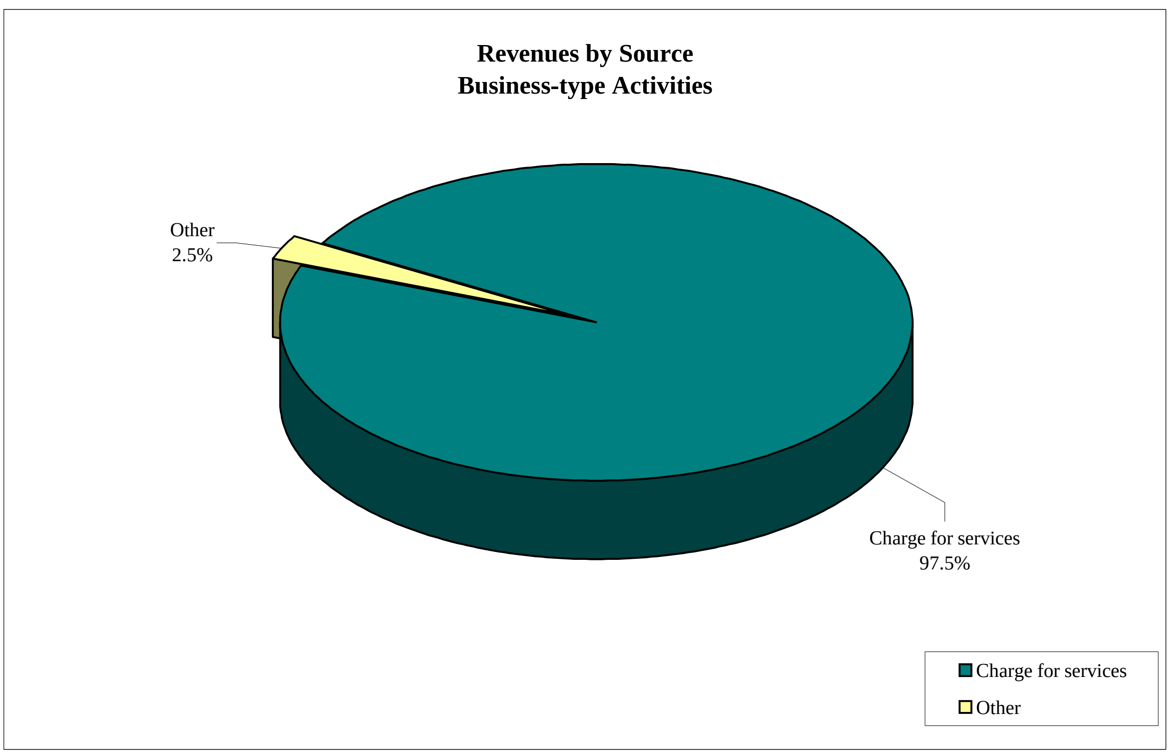
* Certain amounts have been reclassified to conform with current year presentation.

The City’s net assets increased by $104.9 million for the year ended June 30, 2005 compared to $32.9 million as of June 30, 2004. The increase of $72.0 million is the result of a 16% improvement in revenue collections compared to the previous year matched against an increase of 7% in expenditures. Significant components that make up this increase are itemized below.


Expenses and Program Revenues
Governmental Activities
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
General government
Public safety
Life enrichment
Community and Economic Development
Public Works
Interest on long-term debt
Program Expenses
Program Revenue


Revenues by Sources
Governmental Activities
Property taxes 26.9%
State taxes 7.9%
Charge for Services 12.8%
Local taxes 28.8%
Operating Grants and Contributions 8.6%
Investment and interest income 5.3%
Other Revenues 9.7%


Expenses and Program Revenues
Business-type Activities
25,000
20,000
15,000
10,000
5,000
-
Parks and recreation
Sewer
Program Expenses
Program Revenue


Revenues by Source
Business-type Activities
Other
2.5%
Charge for services
97.5%
Charge for services
Other

- The increases in State and local property taxes were driven by a 42% enhancement in assessed property valuation within the boundaries of the City of Oakland during fiscal year 2004-05 as reported by the County of Alameda.

- The increase in interest and investment income of $41.1 million is primarily attributable to the presentation of negative interest for pension annuity last year and increased earnings from the City's pooled and restricted cash and investments as a result of carrying higher balances compared to the previous year.

- The decrease of $32.4 million in other revenues when compared to the previous year is attributed primarily to last year's revision of the City's allowance for doubtful accounts, as the City re-evaluated the collectibility of its long-term notes receivables.

- The increase of $22.0 million of spending in public safety when compared to the previous year is due primarily to overtime costs and national disaster responses for which the City had not been reimbursed by the Federal agencies.

- The $5.7 million reduction in life enrichment expenditures reflects the transfer of all parks and recreation maintenance personnel to public works for management, resource allocation, and maximum flexibility in scheduling maintenance.

- The increase of $37.1 million in public works expenditures reflect the addition of all maintenance personnel transferred from parks and recreation to public works and the completion of various current and continuing projects assigned.

Business-type activities. Business-type activities increased the change in its net assets by $3.1 million for the year ended June 30, 2005. A key element of the increase for Business-type activities is attributed primarily to an 11% annual rate increase and the volume of billings for sewer services as a result of the surge in downtown housing development under the Mayor's 10 K Program. The 10K Program's goal is to develop housing to attract 10,000 new residents to downtown Oakland.

Financial Analysis of the Government's Funds

Governmental funds. The focus of City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2005, the City's governmental funds reported combined ending fund balances of $900.6 million compared to $687.3 for the previous fiscal year, as restated. The majority of the $210.1 million increase (31%) is attributed to (1), the combined increase of $183.3 million or 28% in pooled and restricted cash and investments as a result of unspent Lease Revenue Bonds, Series 2005 proceeds issued on June 21, 2005,

(2) the improved revenue collections as a result of double digit increases in property tax valuation, and (3) the 3% reduction in overall governmental liabilities excluding long-term debts.

At June 30, 2005, the Federal/State Grant Fund ended with a negative fund balance of $2.5 million compared to a negative fund balance of $23.1 million for the previous fiscal year. The significant reduction in negative fund balance is due to systematic collection efforts to reimburse City advances to pay for grant activities.

The Oakland Redevelopment Agency had a fund balance of $268.1 million as of June 30, 2005 that represents an increase of 28% over the prior fiscal year. The net increase of $58.5 million was primarily related to the improvement in property tax revenues in the project areas and the remaining bond proceeds for the Central District Project Area to be completed by fiscal year 2007.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements under the *business-type* column but in more detail.

The portion of net assets invested in capital assets, net of related debt amounted to $107.4 million as of June 30, 2005, compared to $113.6 for the previous fiscal year. The 5% decrease is related to partial proceeds spent from a new debt issued to finance sewer projects. During the fiscal year, the City capitalized $3.1 million in sewer system completed projects, net of depreciation.

General Fund Budgetary Highlights

Differences between the original and the final amended expenditure budgets totaling $16.7 million were due primarily to the determination of actual project carryforwards for continuing appropriations for various multi-year projects, capital improvement projects, and other projects authorized by City Council. The original approved expenditure budget contained only estimates of project carryforwards.

Total general fund actual expenditures compared to the final amended expenditure budget showed net budget savings of $1.2 million for the year ended June 30, 2005, compared to $3.6 million in savings for the previous fiscal year. The net savings is attributed to the significant turnover in full time employees due to retirement and City efforts to reduce personnel costs in line with its revenue forecast.

Actual revenues compared to the final amended general fund revenue budget exceeded projections by $40.0 million, compared to an unfavorable variance of $3.6 million for the previous fiscal year. The increase is primarily attributed to improved property taxes driven by a 42% improvement in assessed property valuation as reported by the County of Alameda.

Capital Assets

The City's capital assets, net of depreciation, totaled $960.6 million as of June 30, 2005 compared to $946.0 million as of June 30, 2004, an increase of 2.0%. Governmental activities additions of $13.3 million in capital assets included land acquisition and capitalization of infrastructure, facilities improvements, and furniture and equipment which met the City's threshold for capitalization. These additions were offset by retirements and depreciation, the net effect of which was a reduction of $3.9 million in capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by $1.4 million net of retirements and depreciation. See Note (7) for more details in capital assets.

Construction Commitments

The City has active construction projects as of June 30, 2005. The projects include street construction, park construction, building improvements and sewer and storm drain improvements (in thousands).

	Spent to date	Remaining Commitment
Infrastructure – streets	$ 92,621	$ 50,031
Infrastructure – parks	14,057	39,863
Facility improvements	22,878	34,065
Sewer and storm drains	10,414	49,315
Technology enhancements	13,800	5,587
Miscellaneous	14,058	8,676
Totals	$167,828	$187,537

Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75% of property valuation, net of exemptions subject to taxation) was $903.4 million. The total amount of debt applicable to the debt limit was $227.0 million. The resulting legal debt margin was $676.1 million.

The City of Oakland's underlying ratings for its general obligation bonds as of June 30, 2004, were as follows:

Standard and Poor's Corporation	A+
Moody's Investors Services, Inc.	A1
Fitch, JBCA, Inc.	A+

As of June 30, 2005, the City had total long-term obligations outstanding of $1.87 billion compared to $1.68 billion outstanding for the prior fiscal year, an increase of 11%. Of this amount, $227.0 million is general obligation bonds backed by the full faith and credit of the City. The remaining $1.64 billion is comprised of various long-term debt instruments listed below including accruals of year-end estimates for other long-term liabilities.

Outstanding Debt
June 30, 2005
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	$ 227,010	$ 232,045	$	$ —	$ 227,010	$ 232,045
Tax allocation bonds	270,085	235,555		—	270,085	235,555
Certificates of participation	50,195	54,780		—	50,195	54,780
Lease revenue bonds	488,721	386,200		—	488,721	386,200
Pension obligation bonds	366,405	388,824		—	366,405	388,824
Special assessment debt with government commitment	7,370	7,940		—	7,370	7,940
Accreted interest on appreciation bonds	70,811	52,863			70,811	52,863
Sewer-bonds and notes payable	—	—	67,985	6,362	67,985	6,362
Less: Deferred amounts						
Bond issuance premiums	24,186	11,830	2,829	—	27,015	11,830
Bond refunding loss	(22,793)	(20,333)		—	(22,793)	(20,333)
Total bonds payable	1,481,990	1,349,704	70,814	6,362	1,552,804	1,356,066
Notes payable	45,209	46,153			45,209	46,153
Other long-term obligations	267,417	274,976		—	267,417	274,976
TOTAL OUTSTANDING DEBT	$1,794,616	$1,670,833	$70,814	$ 6,362	$1,865,430	$1,677,195

The City's overall total long-term obligations increased by $182.7 million compared to fiscal year 2004. The net increase is primarily attributable to (1) the issuance of Refunding Revenue Bonds, 2005 Series A-1, A-2 and B ("Series 2005 A & B Bonds"), (2) the issuance of Sewer Revenue Bonds, Series 2004 A (the "2004 Series A Bonds"), and (3) the Agency's issuance of Tax Allocation Bonds, Series 2005 for redevelopment within the Central District project area. The notes payable and other long-term obligations increased basically because of the additional amounts provided for compensated absences, workers' compensation, and estimated claims payable for fiscal year 2005.

Summary of New Debt:

Refunding Revenue Bonds, 2005 Series A-1, A-2 and B ("Series 2005 A & B Bonds"): On June 21, 2005, the Joint Powers Financing Authority issued its $144,950,000 Refunding Revenue Bonds, Series A-1, A-2, and B. A portion of the proceeds were to be used to refund and defease all of the Authority's outstanding lease Revenue Bonds, 1998

Series A. However, the Interest Rate Swap Agreement associated with the 1998 Series A Bonds still remains in effect and set to terminate on July 31, 2021.

Sewer Revenue Bonds, 2004 Series A: On December 14, 2004, the City issued $62,330,000 of Sewer Revenue Bonds, Series 2004 A (the "2004 Series A Bonds"). The 2004 A Project involves the rehabilitation and, where necessary, replacement of sections of the existing sewer system, including the sewer pipelines and connections to private sewer lines. The project is designed to reduce infiltration and inflow, increase the capacity of designated sewer pipes throughout the system, and eliminate sewer overflows of untreated water into the San Francisco Bay. The 2004 Series A Bonds have interest rates ranging from 3.00% to 5.25% and mature in 2029.

Solar Panel Tax-Exempt Lease Transaction: On November 14, 2004, the City of Oakland (the "Lessee") for $4,138,858 to finance the design and construction of solar photovoltaic generation systems as described in the Design/Build Agreement for the Solar Power and Energy Efficiency Project, between the Lessee and the PowerLight Corporation (the "Contractor"). This financing was a capital lease at an interest rate of 4.25%.

Enterasys Equipment Lease: On February 15, 2005, the electorate authorized the execution of a seven-year contract for the lease of network equipment and services with Enterasys, Inc., for an amount not to exceed $215,000 annually or $1,500,000 over the term of the contract. The purpose of the lease financing was to finance the installation and maintenance of equipment necessary to update the City's network telephone infrastructure. This financing was a capital lease and part of the lease was taxable at an interest rate of 5.522% and the tax-exempt portion was 3.54%. On March 30, 2005, the City entered into a lease financing with Enterasys, Inc., in the amount of $1,139,884.

Shoretel Equipment Lease: On February 15, 2005, the electorate authorized the successful completion of the City's Voice over IP pilot project and the execution of a seven-year contract for the lease of telephone equipment and services with ShoreTel Communications, Inc., for an amount not to exceed $275,000 annually or $1,650,000 over the term of the contract. The purpose of the lease financing was to finance the purchase and installation of equipment necessary to update the City's network telephone infrastructure. The financing was a capital lease and part of the lease was taxable at an interest rate of $5.522% and the tax-exempt portion was 3.54%. On March 30, 2005, the City entered into a lease financing with ShoreTel Communications, Inc., in the amount of $1,397,326.

Central District Redevelopment Project, Subordinated Tax Allocation Bonds, Series 2005: On February 8, 2005, the Agency issued the Series 2005 Bonds for $44,360,000 to finance various redevelopment activities within the Central District Project Area including the following: property acquisition to facilitate residential and commercial development downtown; environmental remediation; parking garage expansion; renovation and maintenance of public facilities such as the Fox Theater; and public infrastructure such as streetscape and traffic improvements. Proceeds of the Series 2005

Bonds will also be used to fund façade improvements, tenant improvements, and support for all Agency-sponsored public capital projects for fiscal years 2005 through 2007.

Current Year Refunding: On June 16, 2005, the Oakland Joint Powers Financing Authority (JPFA) issued its $122,170,000 Revenue Bonds, Series 2005 (City of Oakland General Obligation Bond Program) Bonds. The bonds have interest rates ranging from 3.00% to 5.00% and mature in 2025. The Bonds were issued to (1) purchase City of Oakland General Obligation Refunding Bonds, Series 2005 (the "Oakland GO Bonds") in the aggregate principal amount of $122,476,041, which were issued simultaneously with the issuance of Bonds to defease all of the City's outstanding Refunded GO Bonds, (2) finance certain public capital improvements to be acquired under/or constructed by the Authority, (3) pay the premium for a financial guaranty insurance policy, and (4) pay certain costs of issuance associated with the Bonds.

Refunding Revenue Bonds, 2005 Series: On June 21, 2005, the City, through the JPFA, issued 2005 Refunding Revenue Bonds, 2005 Series (2005 Bonds) in the amount of $144,950,000, comprised of $63,500,000 tax-exempt 2005 Series A-1 Bonds, $63,475,000 tax-exempt 2005 Series A-2 Bonds, and $17,975,000 taxable Series B bonds. The 2005 Bonds were issued as auction rate securities. The purpose of the bonds was to (1) refund and defease all of the Oakland Joint Powers Finance Authority's (JPFA) outstanding Lease Revenue Bonds, 1998 Series A, which were issued to refund Special Refunding Revenue Bonds (Pension Financing) 1988 Series A issued by the City, and (2) fund a portion of the City's obligation to make payments to its Police and Fire Retirement system.

Additional information on the City's long-term debt obligations can be found in Note 12 to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

The economic indicators highlighted below, among others and including labor union contracts, were factored into the City's budget formulation process as they relate to revenue forecasting, program planning, and resource allocation for fiscal year 2005-06.

- The City of Oakland's unemployment rate dropped to 7.8% in October 2005 compared to an average unemployment rate of 9.1% for 2004.

- The annual rate of the Bay Area's consumer price index decreased slightly to 2.04% in October 2005 (2.09% in September 2005), while the U.S. City average decreased from 3.52% to 3.19%.

- Oakland's vacancy rate for class A and B office space has dropped to 7.5% for the 2005 third quarter compared to 10.2% for the 2004 third quarter. By comparison, the 2005 third quarter Class A vacancy rates for the City of San Francisco and the Silicon Valley were 13.1% and 13.9%, respectively.

- For the 2005 third quarter, the average office space rental rate per square foot for the City ranged from $1.66 to $1.89 compared to $2.40 for San Francisco and $2.09 for the Silicon Valley.

- Oakland's gross metropolitan product, estimated at $99.6 billion for 2001, ranks in the top 20 metropolitan economies in the United States and the 84th largest economy in the world.

- Estimated population for 2005 is 415,700 with a total number of households of 150,790 and an average household size of 2.60 persons with a mean household income of $59,500.

- Electric utility rates for commercial range from 13.67 to 17.67 cents per kilowatt hour while industrial rates are from 9.21 to 13.47 cents per kilowatt hour.

- Increases in expenditures due to new union contracts, CalPers pension rates, and healthcare costs have been factored into the City's Fiscal Year 2005-06 budget without raising or imposing new taxes.

Requests for Information

This financial report is designed to provide a general overview of the City of Oakland's finances for all those with an interest in the City's fiscal and economic affairs. Requests for additional financial information should be addressed to the Finance and Management Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353; Oakland, California 94612-2093.

City of Oakland
Statement of Net Assets
June 30, 2005
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Port of Oakland	Oakland Base Reuse Authority
ASSETS					
Cash and investments	$ 288,237	$ 4,897	$ 293,134	$ 95,581	$ 6,060
Receivables (net of allowance for uncollectibles of $9,560):					
Accrued interest	1,340	-	1,340	970	-
Property taxes	10,871	-	10,871	-	-
Accounts receivable	69,816	3,243	73,059	34,425	714
Grants receivable	24,623	-	24,623	-	168
Due from component unit	21,763	-	21,763	-	-
Internal balances	4,751	(4,751)	-	-	-
Due from other governments	4,898	-	4,898	-	-
Due from pension trust fund	2,070	-	2,070	-	-
Notes and loans receivable (net of				-	-
allowance for uncollectibles of $6,490)	184,438	-	184,438	-	-
Restricted assets:					
Cash and investments	562,935	56,970	619,905	373,478	8,932
Receivables	-	-	-	5,915	-
Inventories	1,057	-	1,057	-	-
Capital assets:					
Land and other assets not being depreciated	100,702	5,002	105,704	695,254	-
Facilities, infractructure, and equipment, net of depreciation	738,673	116,238	854,911	1,230,615	490
Property held for resale	57,738	-	57,738	-	89,408
Unamortized bond issuance costs	22,903	716	23,619	-	-
Net pension asset	392,203	-	392,203	-	-
Other	1,911	-	1,911	106,831	-
TOTAL ASSETS	2,490,929	182,315	2,673,244	2,543,069	105,772
LIABILITIES					
Accounts payable and other current liabilities	122,727	983	123,710	46,208	1,010
Accrued interest payable	9,160	-	9,160	33,430	-
Due to other governments	235	-	235	-	3,676
Due to primary government	-	-	-	18,828	2,935
Unearned revenue	8,404	8	8,412	69,897	90
Matured bonds and interest payable	520	-	520	-	-
Other	8,202	-	8,202	45,535	714
Noncurrent liabilities:					
Due within one year	148,849	2,338	151,187	20,660	-
Due in more than one year	1,645,767	68,476	1,714,243	1,545,395	7,495
TOTAL LIABILITIES	1,943,864	71,805	2,015,669	1,779,953	15,920
NET ASSETS (deficit)					
Invested in capital assets, net of related debt	310,633	107,396	418,029	592,698	490
Restricted net assets:					
Debt service	28,375	-	28,375	136,004	-
Pension obligations	175,247	-	175,247	-	-
Urban redevelopment and housing	84,752	-	84,752	-	83,302
Other purposes	4,041	-	4,041	-	-
Unrestricted net assets (deficit)	(55,983)	3,114	(52,869)	34,414	6,060
TOTAL NET ASSETS	$ 547,065	$ 110,510	$ 657,575	$ 763,116	$ 89,852

The notes to the basic financial statements are an integral part of this statement

City of Oakland
Statement of Activities
For the Year Ended June 30, 2005
(In Thousands)

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units: Port of Oakland	Component Units: Oakland Base Reuse Authority
Primary government:									
Governmental activities:									
General government	$ 65,865	$ 25,641	$ -	$ -	$ (40,224)	$ -	$ (40,224)		
Public safety	319,908	66,983	-	-	(252,925)	-	(252,925)		
Life enrichment	96,649	125	-	-	(96,524)	-	(96,524)		
Community and economic development	117,689	12,528	74,694	-	(30,467)	-	(30,467)		
Public works	107,457	6,190	-	-	(101,267)	-	(101,267)		
Interest on long-term debt	62,238	-	-	-	(62,238)	-	(62,238)		
TOTAL GOVERNMENTAL ACTIVITIES	769,806	111,467	74,694	-	(583,645)	-	(583,645)		
Business-type activities:									
Sewer	21,337	24,252	-	-	-	2,915	2,915		
Park and recreation	160	244	-	-	-	84	84		
TOTAL BUSINESS-TYPE ACTIVITIES	21,497	24,496	-	-	-	2,999	2,999		
TOTAL PRIMARY GOVERNMENT	$ 791,303	$ 135,963	$ 74,694	$ -	(583,645)	2,999	(580,646)		
Component units:									
Port of Oakland	$ 266,060	$ 251,010	$ 5,375	$ 51,365				$ 41,690	
Oakland Base Reuse Authority	$ 7,881	$ 7,957	$ 1,062	$ -					$ 1,138
General revenues:									
Property taxes					234,127	-	234,127	-	-
State taxes					68,451	-	68,451	-	-
Local taxes					251,301	-	251,301	-	-
Interest and investment income					46,063	707	46,770	8,935	249
Other					84,850	-	84,850	3,678	203
Transfers					621	(621)	-	-	-
TOTAL GENERAL REVENUES AND TRANSFERS					685,413	86	685,499	12,613	452
Changes in net assets					101,768	3,085	104,853	54,303	1,590
NET ASSETS - BEGINNING					445,297	107,425	552,722	708,813	88,262
NET ASSETS - ENDING					$ 547,065	$ 110,510	$ 657,575	$ 763,116	$ 89,852

The notes to the basic financial statements are an integral part of this statement

CITY OF OAKLAND
Balance Sheet
Governmental funds
June 30, 2005
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments	$ 79,445	$ -	$ 129,143	$ 20,274	$ 55,975	$ 284,837
Receivables (net of allowance for uncollectibles of $8,047):						
Accrued interest	418	-	411	138	373	1,340
Property taxes	5,484	734	1,187	21	3,445	10,871
Accounts receivable	65,855	158	373	1	3,034	69,421
Grants receivable	-	23,928	-	-	695	24,623
Due from component unit	20,367	-	-	-	1,396	21,763
Due from other funds	68,721	2,842	31,125	-	3,440	106,128
Due from other governments	-	-	4,898	-	-	4,898
Notes and loans receivable (net of allowance for uncollectibles of $6,490)	38,619	78,788	51,351	-	15,680	184,438
Restricted cash and investments	175,198	4,090	89,801	112,073	165,792	546,954
Property held for resale	-	-	57,738	-	-	57,738
Other	1,887	24	-	-	-	1,911
TOTAL ASSETS	$455,994	$ 110,564	$ 366,027	$ 132,507	$ 249,830	$1,314,922
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable and accrued liabilities	$102,181	$ 5,108	$ 9,456	$ 1,311	$ 3,509	$ 121,565
Due to other funds	25,110	23,435	6,669	-	13,957	69,171
Due to other governments	21	-	213	-	1	235
Deferred revenue	29,882	84,481	81,190	21	19,046	214,620
Matured bonds and interest payable	-	-	-	520	-	520
Other	6,963	-	380	612	247	8,202
TOTAL LIABILITIES	164,157	113,024	97,908	2,464	36,760	414,313
Fund balances (deficit)						
Reserved:						
Encumbrances	4,115	15,265	-	434	4,837	24,651
Long-term receivables	6,000	-	-	-	2,659	8,659
Debt service	3,379	-	-	-	155,769	159,148
Property held for resale	-	-	57,738	-	-	57,738
Capital projects	-	-	208,829		-	208,829
Pension obligations	138,000	-	-	-	-	138,000
Unreserved/(deficit) reported in:						
General fund	140,343	-	-	-	-	140,343
Special revenue funds	-	(17,725)	-	-	37,510	19,785
Capital project funds	-	-	1,552	129,609	12,295	143,456
TOTAL FUND BALANCES (DEFICIT)	291,837	(2,460)	268,119	130,043	213,070	900,609
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$455,994	$ 110,564	$ 366,027	$ 132,507	$ 249,830	$1,314,922

The notes to the basic financial statements are an integral part of this statement.

City of Oakland
Reconciliation of the Government Fund Balance Sheet to the
Statement of Net Assets for Governmental Activities
June 30, 2005
(In Thousands)

Fund balance - total governmental funds	$ 900,609
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resource and therefore, are not reported in the funds.	812,585
Accounts recivable from OMER's	306
Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the government activities on the statement of net assets.	22,903
Net pension assets are recognized in the statement of net assets as an asset, however it is not considered a financial resource and, therefore, is not reported on the balance sheet of governmental funds.	392,203
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(9,160)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds.	206,216
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(1,771,226)
Internal service funds are used by the City to charge the costs of providing supplies and services, fleet and facilities management, and use of radio and communication equipment to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	(7,371)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 547,065

The note to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005
(In Thousands)

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes:						
Property	$ 143,436	$ -	$ 69,797	$ -	$ 18,828	$ 232,061
State:						
Sales and use	41,651	800	-	-	8,697	51,148
Motor vehicle in-lieu	9,656	-	-	-	-	9,656
Gas	-	-	-	-	7,647	7,647
Local:						
Business license	43,902	-	-	-	-	43,902
Utility consumption	49,781	-	-	-	-	49,781
Real estate transfer	77,722	-	-	-	-	77,722
Transient occupancy	10,926	-	-	-	-	10,926
Parking	7,029	-	-	-	4,551	11,580
Voter approved special tax	-	10,712	-	-	19,443	30,155
Franchise	11,128	-	-	-	-	11,128
Licenses and permits	15,652	-	-	-	24	15,676
Fines and penalties	24,632	341	-	-	1,352	26,325
Interest and investment income	20,845	3,450	4,580	3,880	5,740	38,495
Charges for services	66,375	73	5,173	38	1,474	73,133
Federal and state grants and subventions	591	84,620	-	-	11,798	97,009
Other	21,896	7,056	4,208	191	20,360	53,711
TOTAL REVENUES	545,222	107,052	83,758	4,109	99,914	840,055
EXPENDITURES						
Current:						
Elected and Appointed Officials:						
Mayor	1,552	-	-	-	179	1,731
Council	2,279	-	-	28	1,789	4,096
City Manager	9,276	198	-	1,990	2,179	13,643
City Attorney	8,055	307	-	8	2,659	11,029
City Auditor	1,106	-	-	-	-	1,106
City Clerk	1,644	-	-	21	61	1,726
Agencies/Departments:						
Personnel Resource Management	3,726	-	-	-	-	3,726
Information Technology	7,853	3	-	518	35	8,409
Financial Services	17,942	259	-	3,215	781	22,197
Police Services	171,639	6,342	-	-	832	178,813
Fire Services	90,442	1,276	-	145	6,166	98,029
Life Enrichment:						
Administration	7	-	-	-	-	7
Parks and Recreation	13,097	86	-	4	3,553	16,740
Library	10,478	9,359	-	-	710	20,547
Museum	7,089	-	-	45	249	7,383
Aging & Health and Human Services	6,910	25,654	-	-	3,045	35,609
Community and Economic Development	18,902	21,149	47,034	414	13,532	101,031
Public Works	28,909	5,845	-	8,682	29,902	73,338
Other	29,260	366	-	-	8,701	38,327
Capital outlay	1,184	13,478	-	12,760	8,797	36,219
Debt service:						
Principal repayment	670	1,407	9,830	41	58,848	70,796
Payment to refunding bond escrow agent	-	-	-	-	17,710	17,710
Bond issuance costs	-	-	1,241	89	3,148	4,478
Interest charges	123	705	14,886	12	44,930	60,656
TOTAL EXPENDITURES	432,143	86,434	72,991	27,972	207,806	827,346
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	113,079	20,618	10,767	(23,863)	(107,892)	12,709
OTHER FINANCING SOURCES (USES)						
Proceeds from bonds issuance	-	-	44,360	7,894	381,702	433,956
Premiums on issuance of bonds	-	-	3,387	656	9,492	13,535
Payment to refunding bond escrow agent	-	-	-	-	(247,860)	(247,860)
Property sale proceeds	349	45	-	-	-	394
Transfers in	27,506	-	-	-	82,405	109,911
Transfers out	(82,405)	-	-	(6,300)	(20,606)	(109,311)
TOTAL OTHER FINANCING SOURCES (USES)	(54,550)	45	47,747	2,250	205,133	200,625
NET CHANGE IN FUND BALANCES	58,529	20,663	58,514	(21,613)	97,241	213,334
Fund balances (deficit) - beginning	233,308	(23,123)	209,605	151,656	115,829	687,275
FUND BALANCES (DEFICIT) - ENDING	$ 291,837	$ (2,460)	$ 268,119	$ 130,043	$ 213,070	$ 900,609

The notes to the basic financial statements are an integral part of this statement.

City of Oakland
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities of Governmental Activities
June 30, 2005
(In Thousands)

Net change in fund balance - total governmental funds	$ 213,334
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current period.	12,996
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the change in the deferred amounts during the current period.	(9,263)
Certain long-term accrued obligations, such as claims, vacations, and sick leave, are reported in the fund statements only when they mature, rather than when the obligation is incurred. The increase made to net change in fund balance is caused by the payments made during the year that exceeded the liabilities incurred and changes in estimates.	13,058
Changes to the net pension assets, as reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as an expenditure's in the governmental funds.	10,833
Bond issuance costs are expended in the governmental funds when paid, and are deferred and amortized over the life of the corresponding life of the bonds for purposes of the statement of net assets. This is the amount by which current year bond issuance costs exceeded amortization expense in the current period.	4,478
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and the advance refunding of debt consume the current financing sources of the governmental funds. These transaction, however have no effect on net assets. This is the amount by which principal retirement and payment to escrow agent exceeded bond proceeds in the current period.	
Principal payments	70,796
Payments to escrow agent for refunded debt	265,570
Issuance of bonds and notes	(433,956)
Premium on bond proceeds	(13,535)
Amortization of bond premiums	1,179
Amortization of cost of issuances	(785)
Amortization of refunding loss	(2,672)
Additional accrued and accreted interest calculated on bonds and notes payable	(17,145)
Other long-term liability for mandated Alameda County environmental clean-up health costs	(5,499)
The net loss of activities of internal service funds is reported with governmental activities.	(7,621)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 101,768

The note to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Fund Net Assets
Proprietary Funds
June 30, 2005
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments	$ -	$ 4,897	$ 4,897	$ 3,400
Accounts receivables (net of uncollectibles of $997 and $516 for the enterprise funds and internal service funds, respectively)	3,211	32	3,243	89
Inventories	-	-	-	1,057
Restricted cash and investments	56,970	-	56,970	15,981
Total current assets	60,181	4,929	65,110	20,527
Noncurrent Assets:				
Capital assets:				
Land and other assets not being depreciated	4,784	218	5,002	310
Facilities and equipment, net of depreciation	114,373	1,865	116,238	26,480
Total capital assets	119,157	2,083	121,240	26,790
Unamortized bond issuance costs	716	-	716	-
Total noncurrent assets	119,873	2,083	121,956	26,790
TOTAL ASSETS	180,054	7,012	187,066	47,317
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	983	-	983	1,162
Due to other funds	4,751	-	4,751	30,136
Deferred revenue	8	-	8	-
Bonds, notes and other payables	2,338	-	2,338	5,616
Total current liabilities	8,080	-	8,080	36,914
Noncurrent Liabilities:				
Bonds, notes and other payables	68,476	-	68,476	17,774
Total noncurrent liabilities	68,476	-	68,476	17,774
TOTAL LIABILITIES	76,556	-	76,556	54,688
NET ASSETS				
Invested in capital assets, net of related debt	105,313	2,083	107,396	3,400
Unrestricted (deficit)	(1,815)	4,929	3,114	(10,771)
TOTAL NET ASSETS (DEFICIT)	$ 103,498	$ 7,012	$ 110,510	$ (7,371)

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005
(In Thousands)

	Business-type Activities Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
OPERATING REVENUES				
Rental	$ -	$ 237	$ 237	$ -
Sewer services	23,292	-	23,292	-
Charges for services	-	-	-	32,373
Other	960	7	967	788
TOTAL OPERATING REVENUES	24,252	244	24,496	33,161
OPERATING EXPENSES				
Personnel	10,648	3	10,651	14,313
Supplies	337	-	337	5,479
Depreciation and amortization	3,531	152	3,683	4,856
Contractual services and supplies	1,364	-	1,364	1,331
Repairs and maintenance	38	-	38	1,679
General and adminsitrative	2,916	-	2,916	3,572
Rental	726	5	731	1,508
Other	-	-	-	6,811
TOTAL OPERATING EXPENSES	19,560	160	19,720	39,549
OPERATING INCOME (LOSS)	4,692	84	4,776	(6,388)
NONOPERATING REVENUES (EXPENSES)				
Interest and investment income	592	115	707	111
Interest expense	(1,777)	-	(1,777)	(1,447)
Other, net	-	-	-	82
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,185)	115	(1,070)	(1,254)
INCOME (LOSS) BEFORE TRANSFERS	3,507	199	3,706	(7,642)
Transfers in	-	-	-	284
Transfers out	(621)	-	(621)	(263)
TOTAL TRANSFERS	(621)	-	(621)	21
Change in net assets	2,886	199	3,085	(7,621)
Net Assets - Beginning	100,612	6,813	107,425	250
NET ASSETS - ENDING	$ 103,498	$ 7,012	$ 110,510	$ (7,371)

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005
(In Thousands)

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers, including other funds and cash deposits	$ 23,041	$ (3)	$ 23,038	$ 32,782
Cash received from tenants for rents	-	237	237	787
Cash from other sources	960	7	967	-
Cash paid to employees for services	(10,648)	(3)	(10,651)	(14,313)
Cash paid to suppliers for goods & services	(5,800)	(26)	(5,826)	(20,870)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,553	212	7,765	(1,614)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Payment of interfund loans	(7,927)	-	(7,927)	8,172
Transfers in	-	-	-	284
Transfers out	(621)	-	(621)	(263)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	(8,548)	-	(8,548)	8,193
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition of capital assets	(4,951)	-	(4,951)	(5,203)
Long-term debt:				
Bond proceeds	65,217	-	65,217	6,676
Costs of issuance	(730)		(730)	-
Repayment of long-term debt	(707)	-	(707)	(5,598)
Interest paid on long-term debt	(1,456)	-	(1,456)	(1,280)
NET CASH PROVIDED BY (USED IN) CAPITAL FINANCING ACTIVITIES	57,373	-	57,373	(5,405)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income received	592	115	707	(56)
Other investing activities	-	-	-	83
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	592	115	707	27
NET INCREASE IN CASH AND CASH EQUIVALENTS	56,970	327	57,297	1,201
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	-	4,570	4,570	18,180
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 56,970	$ 4,897	$ 61,867	$ 19,381
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	$ 4,692	$ 84	$ 4,776	$ (6,388)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Depreciation and amortization	3,531	152	3,683	4,856
Changes in assets and liabilities:				
Receivables	(179)	(3)	(182)	31
Inventories	-	-	-	148
Accounts payable and accrued liabilities	(419)	(21)	(440)	(261)
Deferred revenue	(72)	-	(72)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 7,553	$ 212	$ 7,765	$ (1,614)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS				
Cash and investments	-	4,897	4,897	3,400
Restricted cash and investments	56,970	-	56,970	15,981
TOTAL	$ 56,970	$ 4,897	$ 61,867	$ 19,381

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Fund
ASSETS		
Cash and investments	$ 35,097	$ 4,981
Receivables:		
Accrued interest and dividends	2,240	17
Investments and contributions	74,737	-
Restricted:		
Cash and investments	650,169	-
Securities lending collateral	50,594	-
TOTAL ASSETS	812,837	4,998
LIABILITIES		
Accounts payable and accrued liabilities	136,751	215
Due to other funds	2,070	-
Securities lending collateral	50,594	-
Other	-	7
TOTAL LIABILITIES	189,415	222
NET ASSETS		
Net assets held in trust	$ 623,422	$ 4,776

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Fund
ADDITIONS:		
Contributions:		
Member contributions	$ 24	$ -
City contributions	17,710	34
Total contributions	17,734	34
Trust receipts	-	1,045
Investment income:		
Net appreciation in fair value of investments	35,276	-
Interest	11,731	94
Dividends	3,089	-
Securities lending	911	-
TOTAL INVESTMENT INCOME	51,007	94
Less investment expenses:		
Investment expenses	(1,495)	-
Borrowers rebates and other agent fees on securities lending transactions	(793)	-
Total investment expenses	(2,288)	-
NET INVESTMENT INCOME	48,719	94
Other income	38	-
TOTAL ADDITIONS	66,491	1,173
DEDUCTIONS:		
Benefits to members and beneficiaries:		
Retirement	43,791	-
Disability	25,982	-
Death	2,236	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	72,009	-
Administrative expenses	936	3
Change in payable to City	(306)	-
Police services	-	1,278
TOTAL DEDUCTIONS	72,639	1,281
Change in net assets	(6,148)	(108)
NET ASSETS - BEGINNING	629,570	4,884
NET ASSETS - ENDING	$ 623,422	$ 4,776

The notes to the basic financial statements are an integral part of this statement.

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(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY

The City of Oakland, California, (the City or Primary Government) was incorporated on May 25, 1854, by the State of California and is organized and exists under and pursuant to the provisions of State law. The Mayor/Council form of government was established in November 1998 through Charter amendment. The legislative authority is vested in the City Council and the executive authority is vested in the Mayor with administrative authority resting with the City Administrator.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are combined with the data of the Primary Government within the governmental activities column in the government-wide financial statements and governmental funds in the fund financial statements. The Port of Oakland (Port) and the Oakland Base Reuse Authority (OBRA) are the City's discretely presented component units and are reported in separate columns in the government-wide financial statements to emphasize that they possess characteristics that they are legally separate from the City. Although the Port and OBRA have a significant relationship with the City, the entities are fiscally independent and do not provide services solely to the City and, therefore, are presented discretely.

Blended Component Units

The Redevelopment Agency of the City of Oakland (Agency) was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. Its principal activities are acquiring real property for the purpose of removing or preventing blight, constructing improvements thereon, and rehabilitating and restoring existing properties. The Oakland City Council serves as the Board of the Agency. The Agency's funds are reported as a major governmental fund.

The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. The Corporation's activities are reported in other governmental funds.

The Oakland Joint Powers Financing Authority (JPFA) was formed to assist in the financing of public capital improvements. JPFA is a joint exercise agency organized under the laws of the State of California and is composed of the City and the Agency. JPFA transactions are reported in other governmental funds. Related debt is included in the long-term obligations of the City in the governmental activities column of the government-wide statement of net assets.

Discretely Presented Component Units

The Port is a legally separate component unit established in 1927 by the City. Operations include the Oakland International Airport; the Port of Oakland Marine Terminal Facilities; and commercial real estate which includes Oakland Portside Associates (OPA), a California limited partnership, and the Port of Oakland Public Benefit Corporation (Port-PBC), a nonprofit benefit corporation. OPA and Port-PBC were dissolved effective June 30, 2004, and all assets were transferred to the Port. All interfund transactions have been eliminated. The Port is governed by a seven-member Board of Port Commissioners (the Board) that is appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by City charter to deposit its operating revenues in the City Treasury. The City is responsible for investing and managing such funds. The Port is presented in a separate column in the government-wide financial statements.

The OBRA was established in 1995 as a Joint Powers Authority (JPA) by the City; the Agency; and the County of Alameda (County). OBRA was established to assure the effective transition of military facilities in Oakland that have been or may be selected for closure. OBRA currently is assuming the effective transition of the Oakland Army Base (OAB) to the Agency and the Port. Effective July 1, 2003, OBRA's governing body amended the JPA agreement, which among other things, changed the composition of the governing body, reducing it to a five-member board consisting of the Mayor of Oakland and four other members of the Oakland City Council (which does not represent the majority of the City Council and therefore the Board is not substantively the same as the City Council).

The votes of a majority of OBRA's governing body are required to take action on most matters. The revised Joint Powers Assessment requires OBRA to deposit its revenues in the City Treasury. The City is responsible for investing and managing such funds. OBRA is presented in a separate column in the government-wide financial statements.

Complete financial statements of the individual component units may be obtained from:

Finance and Management Agency, Accounting Division
City of Oakland
150 Frank H. Ogawa Plaza, Suite 6353
Oakland, CA 94612-2093

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the City evaluated potential component units and determined that none of the remaining potential component units were individually significant to the City's reporting entity.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component units. The effect of inter-fund activity has been removed from these statements except for interfund services provided among funds. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from its discretely presented component units, legally separate entities for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and a major individual enterprise fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available for the year levied and if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and local taxes, grants, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Special assessments are recorded as revenues and receivables to the extent installments are considered current. The estimated installments receivable not considered available, as defined above, are recorded as receivables and offset by deferred revenue.

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City. Property taxes are assessed and levied as of July 1 on all taxable property located in the City, and result in a lien on real property. Property taxes are then due in two equal installments; the first on November 1 and the second on February 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively. General property taxes are limited to a flat 1% rate applied to the 1975-76 full value of the property, or 1% of the sales price of the property or of the construction value added after the 1975-76 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise a maximum of 2% per year. Taxes were levied at the maximum 1% rate during the year ended June 30, 2005.

The City reports the following major governmental funds:

> The **General Fund** is the City's primary operating fund. It accounts for all financial activities and resources of the general government except those required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business, utility and real estate transfer taxes, interest and investment income, and charges for services.
>
> The **Federal/State Grant Fund** accounts for various Federal and State grants used or expended for a specific purpose, activity or program.
>
> The **Oakland Redevelopment Agency Fund** accounts for federal grants, land sales, rents and other revenues relating to redevelopment projects. Expenditures are comprised of land acquisitions and improvements and all other costs inherent in redevelopment activities.

The **Municipal Capital Improvement Fund** accounts primarily for monies pertaining to the Museum and the Scotland Convention Center financings. This fund may be used for the lease, acquisition, construction or other improvements of public facilities.

The City reports the following major enterprise fund:

The **Sewer Service Fund** accounts for the sewer service charges received by the City based on the use of water by East Bay Municipal Utility District customers residing in the City. The proceeds from the sewer charges are used for the construction and maintenance of sanitary sewers and storm drains and the administrative costs of the program.

Additionally, the City reports the following fund types:

The **Internal Service Funds** account for the purchase of automotive and rolling equipment; radio and other communication equipment; the repair and maintenance of City facilities; acquisition, maintenance and provision of reproduction equipment and services; and acquisition of inventory provided to various City departments on a cost reimbursement basis.

The **Pension Trust Funds** account for closed benefit plans that cover uniformed employees hired prior to July 1976 and non-uniformed employees hired prior to September 1970.

The **Private Purpose Trust Fund** accounts for the operations of the Youth Opportunity Program and certain gifts that are not related to ORA projects or parks, recreation and cultural activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Charges between the City, the Port, and the OBRA are not eliminated because the elimination of these charges would distort the direct costs and revenues reported.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: sewers, golf courses, vehicle acquisition and maintenance, radio and telecommunication support charges, and reproduction services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Investments

The City follows the practice of pooling cash of all operating funds for investment, except for the Oakland Redevelopment Agency Fund, and funds held by outside custodians. Investments are generally carried at fair value. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, banker's acceptances, U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less, are carried at amortized cost. Changes in fair value of investments are recognized as a component of interest and investment income.

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

Income earned or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds and component units based on their proportionate share of the average daily cash balance.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The proprietary fund types' investments in the City's cash and investment pool are, in substance, demand deposits and are therefore considered to be cash equivalents.

Adoption of GASB Statement No. 40

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, effective July 1, 2004. GASB 40 is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. There are risks inherent in all deposits and investments, and GASB believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions. Deposit and investment resources often represent significant assets of the governmental, proprietary and fiduciary funds. These resources are necessary for the delivery of governmental services and programs, or to carry out fiduciary responsibilities. Some key changes with GASB 40 include disclosure of:

- Common deposit and investment risks related to credit risk;
- Concentration of credit risk;
- Interest rate risk;
- Investments that have fair values that are highly sensitive to changes in interest rates; and
- Deposit and investment policies related to those risks.

Due From/Due To Other Funds and Internal Balances

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. In the fund financial statements, these receivables and payables are classified as “due from other funds” or “due to other funds.” In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Net receivables and payables between the governmental activities and business-type activities are classified as internal balances.

Interest Rate Swap Agreements

The City enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expense resulting from these agreements, no amounts are recorded in the financial statements. Refer to Note 12 for additional information.

Inter-fund Transfers

In the fund financial statements, inter-fund transfers are recorded as transfers in/out except for certain types of transactions that are described below:

> Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.
>
> Reimbursements for expenditures, initially made by one fund that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reduction of expenditures in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

Bond Issuance Costs and Discounts/Premiums

In the government-wide financial statements and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

Inventories

Inventories, consisting of materials and supplies held for consumption, are stated at cost. Cost is calculated using the average cost method. Inventory items are considered expensed when consumed rather than when purchased.

Capital Assets

Capital assets, which include land, museum collections, construction in progress, facilities and improvements, furniture, machinery and equipment, infrastructure (e.g., streets, streetlights, traffic signals, and parks), sewers and storm drains, and capital assets acquired prior to 1980, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the general, federal/state grant, the Agency, municipal capital improvements, and other governmental funds and as assets in the government-wide and proprietary financial statements to the extent the City's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

The City has a collection of artwork presented for public exhibition and education that is being preserved for future generations. These items are protected, kept unencumbered, cared for and preserved by the City. The proceeds from the sale of any pieces of the collection are used to purchase other acquisitions for the collection. However, future acquisitions purchased with authorized budgeted City funds during a fiscal year will be reported as non-depreciable assets in the City's financial statements.

Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Facilities and improvements	15-40 years
Furniture, machinery and equipment	3-20 years
Infrastructure	7-50 years

Property Held for Resale

Property held for resale is recorded as an asset at the lower of cost or estimated net realizable value. In its fund statements, the Agency charges as expenditures, the cost of developing and administering its capital development projects related to costs over and above the cost of the initial acquisition.

Net Pension Asset

In February 1997, the City issued pension obligation bonds to reduce the actuarial accrued liability of the Police and Fire Retirement System (PFRS). And in June 2005, the City contributed $17.7 million to PFRS to be used to fund a portion of the City's obligation under its Charter to the Retirement System. The net pension asset represents a prepaid asset amortized over the same period used by the actuary at the time of the bond issuance, as it allows for the matching of the asset with the related pension obligation bond liability. See Note 16 for the accounting treatment of the net pension asset.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vested vacation, sick leave and other compensatory time. All earned compensatory time is accrued when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they are due and payable.

Retirement Plans

City employees participate in one of three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and California Public Employees' Retirement System (PERS), collectively the Plans. Employer contributions and member contributions made by the employer to the Plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the provisions of the Plans. Refer to Note 16 for additional information.

Refunding of Debt

Gains or losses occurring from advance refundings are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities reported in the government-wide financial statements, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001.

Fund Balances

Reservations of fund balances of the governmental funds indicate those portions of fund equity that are not available for appropriation for expenditure or which have been legally restricted to a specific use. Following is a brief description of the nature of certain reserves.

1. **Reserve for Encumbrances –** Encumbrances outstanding at fiscal year end are reported as reservations of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

2. **Reserve for Long-Term Receivables –** This fund balance is reserved for long-term receivables that do not represent expendable available financial resources

3. **Reserve for Debt Service –** This fund balance is reserved for the payment of debt service requirements in subsequent years.

4. **Reserve for Property Held for Resale –** This fund balance is reserved for the cost of developing and administering residential and commercial properties intended for resale.

5. **Reserve for Capital Projects –** This fund balance is reserved for ongoing projects in specific areas excluding the General Fund. This reservation includes $38,122,381 reserved for low and moderate housing projects.

6. **Reserve for Pension Obligations –** This fund balance is reserved for the City's obligations under its pension plans.

Designations of portions of the General Fund unreserved fund balance have been made to indicate those portions of the fund balances which the City has tentative plans to utilize in a future period. These amounts may or may not result in actual expenditures. See Note 13 for specific designations.

Restricted Net Assets

Restricted net assets are those assets, net of their related liabilities, that have constraints placed on their use by laws, regulations, creditors, grantors, contributors, or by enabling legislation. Accordingly, restricted assets may include principal and interest amounts accumulated to pay debt service, unspent grant revenues, certain fees and charges, and restricted tax revenues.

Effects of New Pronouncements

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement No.1*. This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

In December 2004, GASB issued Statement No. 46, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34, which requires that limitation on the use of net assets imposed by enabling legislation be reported as restricted net assets. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government-such as citizens, public interest groups, or the judiciary-can compel a government to honor. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. Application of this statement is effective for the City's fiscal year ending June 30, 2006.

In June 2004, GASB issued Statement No. 47, Accounting for Termination Benefits, which establishes accounting standards for termination benefits. More specifically, this statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not other wise identifiable from information displayed on the face of the financial statements) and significant methods and assumptions used to determine termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement will be implemented simultaneously with the requirements of Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. For all other termination benefits, application of this Statement is effective for the City's fiscal year ending June 30, 2006.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

Primary Government

The City maintains a cash and investment pool consisting of City funds and cash held for OMERS, PFRS, Port, and OBRA. The City's funds are invested according to the investment policy adopted by the City Council. The objectives of the policy are legality, safety, liquidity, diversity, and yield. The policy addresses soundness of financial institutions in which the City can deposit funds, types of investment instruments permitted by the California Government Code, duration of the investments, and the percentage of the portfolio that may be invested in:

- United States Treasury securities (subject to restrictions by the Nuclear Free Ordinance);
- federal agency issues;
- bankers' acceptances;
- commercial paper;
- medium term corporate notes and deposit notes;
- negotiable certificates of deposit;
- certificates of deposit;
- State of California Local Agency Investment Fund;
- money market mutual funds;
- local city/agency bonds;
- State of California bonds;
- secured obligations and agreements;
- repurchase agreements; and
- reverse repurchase agreements.

The City's investment policy stipulates that the collateral to back up repurchase agreements be priced at market value and be held in safekeeping by the City's primary custodian. Additionally, the City Council has adopted certain requirements prohibiting investments in nuclear weapons makers, and restricting investments in U.S. Treasury bills and notes due to their use in funding nuclear weapons research and production.

Other deposits and investments are invested pursuant to the governing bond covenants, deferred compensation plans, or retirement systems' investment policies. Under the investment policies, the investment counsel is given the full authority to accomplish the objectives of the bond covenants or retirement systems subject to the discretionary limits set forth in the policies.

The retirement systems' investment policies authorize investment in the domestic stocks and bonds, U.S. equities, international equities, U.S. fixed income, mortgage loans and real estate. The systems' investment portfolios are managed by external investment managers. During the year ended June 30, 2005, the number of external investment managers was six for the PFRS and one for the OMERS.

Total City deposits and investments at fair value are as follows (in thousands):

	Primary Government				Port	OBRA
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total		
Cash and investments	$ 288,237	$ 4,897	$ 40,078	$ 333,212	$ 95,581	$ 6,060
Restricted cash and investments	562,935	56,970	650,169	1,270,074	373,478	8,932
Restricted securities lending collateral	—	—	50,594	50,594	—	—
TOTAL	$ 851,172*	$ 61,867	$740,841	$1,653,880	$ 469,059	$ 14,992
Deposits				$ 29,188	$ 7,443	$ 7,361
Investments				1,624,692	461,616	7,631
TOTAL				$1,653,880	$ 469,059	$ 14,992

*$851,172 consists of all governmental funds and the internal service funds.

Investments - Primary Government

The City adopted Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB No. 3*, effective July 1, 2004 for its annual financial statements. The objective of this Statement is to update custodial credit risk disclosure requirements and to establish more comprehensive disclosure requirements addressing other common risks that GASB 40 requires to be disclosed, including Custodial Credit Risk, Financial Credit Risk, Concentration of Credit Risk, Interest Rate Risk, and Foreign Currency Risk. Listed below is a brief description of each risk and how the City mitigates each type of risk.

Custodial Credit Risk: For investments, custodial risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of the investments or collateral securities in the possession of an outside party. To protect against fraud and potential losses from the financial collapse of securities dealers, all securities owned by the City shall be held in the name of the City for safekeeping by a third party bank trust department, acting as an agent for the City under the terms of the Custody Agreement. The City's investments subject to Custodial Credit Risk Category is very low.

At June 30, 2005, the carrying amount of the City's deposits was $29.2 million and the bank balance was $28.6 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, $0.6 million was FDIC insured and $28 million was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

Credit Risk (Financial Risk): Credit risk represents the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. The most effective method for minimizing the risk of default by an issuer is to invest in high quality obligations. Since these obligations are the only ones permitted by State law, investing in them is also the most effective way to maintain legal compliance. The City invests only in securities from highly rated entities. As of June 30, 2005, approximately 65% of the pooled investments was invested in "AAA" quality securities.

The following tables show the City's credit risk for the Pool and Restricted portfolios as of June 30, 2005 (in thousands):

Pooled Investments

		Ratings as of Fiscal Year Ended 06-30-05				
	Fair Value	AAA	Aa/AA	A / A-1+ / A-	A1P1/F-1	Not Rated
U.S. Govt. Agency Securities	$ 244,642	$ 244,642	$ -	$ -	$ -	$ -
U.S. Govt. Ag. Security Disc.	47,850	-	-	47,850	-	-
Corporate Bond	5,846	-	5,846	-	-	-
Corporate Bond	3,032	-	-	3,032	-	-
Money Market Funds	50,838	50,838	-	-	-	-
LAIF	54,582	-	-	-	-	54,582
Commercial Paper	24,963	-	-	24,963	-	-
Commercial Paper	20,245	-	-	-	20,245	-
Total Investment Pool	$ 451,998	$ 295,480	$ 5,846	$ 75,845	$ 20,245	$ 54,582

Restricted Investments

		Ratings as of Fiscal Year Ended 06-30-05		
	Fair Value	AAA	A1/P1	Not Rated
Commercial Paper	$ 5,982	$ -	$ 5,982	$ -
Money Market Funds	73,679	73,679	-	-
Corporate Bonds	3,000	-	-	3,000
Resolution Funding	26,117	-	-	26,117
Local Govt. Bonds	122,476	-	-	122,476
U.S. Govt. Ag. Securities	15,810	15,810	-	-
LAIF	44,843	-	-	44,843
Investment Agreement	46,102	-	-	46,102
Investment Agreement	144,915	-	-	144,915
Annuity	138,000	-	-	138,000
Total	$ 620,924	$ 89,489	$ 5,982	$ 525,453

Concentration of Credit Risk: This risk represents the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by the lack of diversification. The City believes in the importance of a well-diversified portfolio. It is the policy of the City to review the diversity of the portfolio on a regular basis so that reliance on any one issuer will not place an undue financial burden on the City.

Under the City's Investment Policy, no more than five percent (5%) of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Investment Fund and proceeds of or pledged revenues for any tax revenue anticipation notes. The JPFA's investment in the City of Oakland General Obligation Refunding Bonds, Series 2005 in the amount of $122,476,000 and the guaranteed non-participating annuities in New York Life Insurance Company in the amount of $138,000,000 represents 11.4% and 12.9% of the total City portfolio respectively, at June 30, 2005. The City also has an Investment Agreement in the amount of $64,879,000, representing 6.05% of the total City portfolio at June 30, 2005.

The following table shows the diversification of the City's portfolio (in thousands):

Pooled Investments

	Fair Value	% of Portfolio
U.S. Govt. Agency Securities	$ 244,642	54.12%
U.S. Govt. Ag. Security Disc.	47,850	10.59%
Corporate Bond	8,878	1.96%
Money Market Funds	50,838	11.25%
LAIF	54,582	12.08%
Commercial Paper	45,208	10.00%
TOTAL	**$ 451,998**	**100.00%**

Restricted Investments

	Fair Value	% of Portfolio
U.S. Govt. Ag. Securities	$ 15,810	2.55%
Commercial Paper	5,982	0.96%
Corporate Bond	3,000	0.48%
U.S. Treasury Notes	26,117	4.21%
LAIF	44,843	7.22%
Money Market Funds	73,679	11.87%
Local Government Bonds	122,476	19.72%
Investment Agreement	191,017	30.76%
Annuity	138,000	22.22%
TOTAL	**$ 620,924**	**100.00%**

Interest Rate Risk: This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. In order to manage interest rate risk, it is the City's policy that the maximum maturity for any one investment shall not exceed five (5) years unless authority for such investment is expressly granted in advance by the City Council.

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2005, the City's pooled portfolio had an average day to maturity of 427 days and had the following investments and original maturities (in thousands):

Pooled Investments

	Fair Value	Interest Rates (%)	12 Months or Less	1-3 Years	3-5 Years
U.S. Govt. Agency Securities	$ 244,642	3.40 – 7.84	$ 94,846	$ 100,824	$ 48,972
U.S. Govt. Ag. Security Disc.	47,850	3.18 – 3.30	47,850	-	-
Corporate Bond	8,878	3.81 – 6.23	5,846	3,032	-
Money Market Funds	50,838	2.97	50,838	-	-
LAIF	54,582	2.85	54,582	-	-
Commercial Paper	45,208	2.86 – 5.78	45,208	-	-
TOTAL	**$ 451,998**		**$ 299,170**	**$ 103,856**	**$ 48,972**

Restricted Investments

	Fair Value	Interest Rates (%)	12 Months or Less	1 - 3 Years	3 - 5 Years	5 Years +
U.S. Govt. Agency Securities	$ 15,810	3.72 – 4.17	$ 6,912	$ 8,898	$ -	$ -
Commercial Paper	5,982	4.35 – 8.99	5,982	-	-	-
Corporate Bond	3,000	3.81 – 6.22	-	-	-	3,000
U.S. Treasury Notes	26,117	3.18 – 4.58	2,164	4,052	3,737	16,164
LAIF	44,843	1.60 – 2.97	44,843	-	-	-
Money Market Funds	73,679	0.93 – 2.95	73,679	-	-	-
Local Government Bonds	122,476	4.86	5,102	10,841	12,030	94,503
Investment Agreement	191,017	3.94 – 3.91	-	144,915	46,102	-
Annuity	138,000	4.30	-	-	-	138,000
TOTAL	**$ 620,924**		**$ 138,682**	**$ 168,706**	**$ 61,869**	**$ 251,667**

Foreign Currency Risk: The possibility that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect a deposit/investment's fair value. The City only invests in U.S. dollar denominated obligations. This successfully eliminates all risk of principal erosion due to fluctuations in the values of foreign currencies.

Other Disclosures: As of June 30, 2005, the City's investment in LAIF is $99.4 million ($54.6 million in pooled investments and $44.8 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately $18.6 billion. Of that amount, over 97.6% is invested in non-derivative financial products and 2.4% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the City's position in the pool.

Pensions Cash and Investments

Oakland Municipal Employee's Retirement System (OMERS)

City's Investment Pool

Cash and cash equivalents are funds held by the City Treasurer as pooled cash or held by the third party custodian as short-term investment funds for the temporary placement of proceeds from the sale or maturity of investments or in anticipation of investment purchases.

OMERS maintains its operating cash in the City's investment pool. It is not possible to disclose relevant information about the System's separate portion of the investment pool. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2005 basic financial statements. A copy of that report may be obtained by contacting the City Treasurer. As of June 30, 2005, the OMERS's share of the City's investment pool totaled $573.3 thousand.

Investments

OMERS investment policy authorizes investment in domestic common stocks and bonds. Portfolio concentrations are limited to 5% of a single issuer. Industry concentrations are limited to 40% of a specific industry. There is also a limit that the investment manager cannot hold more than 7% of a single issuer in its portfolio. During the year ended June 30, 2005, OMERS investment portfolio was managed by one external investment manager.

Interest Rate Risk: This risk represents the possibility that changes interest rates will adversely affect the fair value of an investment. OMERS investment policy limits the duration of the fixed income investments to within a range of 1.5 years to that of the Lehman Aggregate Bond Index. As of June 30, 2005 the duration for the OMERS fixed income investments was 4.95, while the duration of the Lehman Aggregate Bond Index was 4.16.

As of June 30, 2005, OMERS had the following investments and maturities (in thousands):

Investments	Fair Value	Modified Duration (Year)
Government bonds	$ 1,362	9.97
GNMA mortgage pool	1	0.87
Corporate bonds	500	3.20
Bonds mutual funds	2,068	2.06
Total Fixed Investments	**3,931**	**4.95**
Other Investments		
Domestic equities	5,576	
Total Investments	**$ 9,507**	

Credit Risk: Credit risk represents the possibility that that an issuer or other counterparty to an investment will not fulfill its obligations. OMERS investment policy states that the fixed income portfolio shall be 100% investment grade with a focus on capital preservation and income generation. The table below shows OMERS credit risk as of June 30, 2005:

S & P or Moody's Rating	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
AAA	$ 2,652	67%
AA	1,279	33%
Total Fixed Investments	**$ 3,931**	**100%**

Concentration of Credit Risk: This risk represents the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2005, the investment portfolio contained the following concentration of investments in a single issuer (other than those issued or explicitly guaranteed by the U.S. government) that represented 5 percent or more of OMERS investments (in thousands):

Investments	Amount
Capstead Mortgage Corp.	$ 456
Cherokee Inc.	519
Crucell, NV Ads	480
Total	$ 1,455

Oakland Police and Fire Retirement System (PFRS)

City's Investment Pool

Cash in treasury is held in the City's cash and investment pool. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. Information regarding the custodial credit risk categorization of the City's cash and investment pool can be found in the City's basic financial statements. As of June 30, 2005, the PFRS share of the City's investment pool totaled $34.5 million.

Investments

PFRS investment policy authorizes investment in U.S. equities, international equities, U.S. fixed income, instruments including U.S. Treasury notes and bonds, government agency mortgage backed securities, U.S. corporate notes and bonds, collateralized mortgage obligations, yankee bonds and non U.S. issued fixed income securities denominated in foreign currencies. PFRS investment portfolio is managed by external investment managers. During the year ended June 30, 2005, the number of external investment managers was seven.

Interest Rate Risk: PFRS investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. As of June 30, 2005 the duration for PFRS fixed income investment portfolio was 3.33, excluding the fixed income short-term investments and securities lending investments.

As of June 30, 2005, PFRS had the following fixed income investments and maturities (in thousands):

Investments	Fair Value	Modified Duration (Year)
U.S. Govt. Agencies	$ 152,447	2.4
U.S. Govt. Agencies (short-term)	26,598	0.1
U.S. Govt. Bond	28,320	7.9
Other Govt. Bonds	6,787	0.6
Corporate Bonds	120,734	4.2
Corporate Bonds – securities lending	50,000	0.0
Repurchase Agreement – securities lending	500	0.0
Total Fixed Income Investments	**$ 385,386**	**2.9**
Other Investments		
Domestic equities	191,675	
International equities	83,337	
Other short-term investments	30,015	
Real estate mortgage loans	59	
Total Investments	**$ 690,472**	

Credit Risk: Credit risk represents the risk that an issuer or other counterparty to an investment will not fulfill its obligation. PFRS investment policy with respect to fixed income investments identifies two standards for credit quality. The policy allows the core style managers to invest in securities rated "BBB" or higher (investment grade using Standard & Poor's or Moody's ratings). The policy also allows enhanced core style managers to invest in securities with a minimum rating of B or higher (non investment grade using Standard & Poor's or Moody's ratings) as long as the portfolio maintains an average credit quality of BBB. The following table provides information as of June 30, 2005 concerning credit risk (in thousands):

S&P or Moody's Rating	Fair Value	Fair Value as a Percentage of Total Fixed Maturity Fair Value
AAA	$ 213,934	55.5%
AA	12,109	3.1%
A	80,305	20.8%
BBB	26,489	6.9%
BB	6,088	1.6%
B	4,919	1.3%
CC	286	0.1%
Not Rated	41,256	10.7%
Total Fixed Investments	**$ 385,386**	**100%**

Concentration of Credit Risk: The investment policy allows for each fixed asset manager to have a maximum of 10% of any single security investment in their individual portfolios with the exception of U.S. government securities, which is allowed to have a maximum of 25% in each manager's portfolio. As of June 30, 2005, there was no concentration in excess of 5% of PFRS net assets.

Securities Lending Transactions

PFRS is authorized to enter into securities lending transactions which are short term collateralized loans of PFRS securities to brokers-dealers with a simultaneous agreement allowing PFRS to invest and receive earnings on the loan collateral for a loan rebate fee. All securities loans can be terminated on demand by either PFRS or the borrower, although the average term of such loans is one week.

Metropolitan West Securities, Inc. (MetWest) administers the securities lending program. MetWest is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% (105% for international) of the market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults.

At year-end, PFRS had no credit risk exposure to securities borrowers because the amounts PFRS owed to borrowers exceeded the amounts the borrowers owed to PFRS. PFRS' contract with MetWest requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

There are no restrictions on the amount of securities that may be lent.

At present, the custodians are investing the cash collateral received for securities lent for periods averaging one week or less which generally matches the term of the period of the security loans.

The following table provides information as of June 30, 2005 concerning security lending investments and collateral received (in thousands):

Securities Lending
Investments and Collateral Received (At Fair Value)

Type of Investment	**Amount**
Cash Collateral	
U.S. Government and agencies	$ 42,346
Corporate bonds	230
U.S. equity	7,321
Total Securities Lent	49,897
Type of Collateral Received	
Cash Collateral	
Cash	94
Corporate bonds	50,000
Repurchase agreement	500
Total Collateral Received	$ 50,594

Fair Value Highly Sensitive to Change in Interest Rates: The term of a debt investment may cause its fair value to be highly sensitive to interest rates changes. Collateralized Mortgage Obligation (CMO) is a type of mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities. The fair value of mortgage-back security pass-through/CMOs are considered sensitive to interest rate changes because they have embedded options. The investment policy states that investments in derivative securities known as CMOs shall be limited to a maximum of 20% of an account's market value with no more than 5% in any one issue.

The following table shows sensitive interest rate analysis as of June 30, 2005:

Securities Name	Coupon Rate	Fair Value (in millions)	Percent of account market value
Federal Home Loan Mortgage Corp Structured Pass-Through	7.0%	$ 2.32	1.60%
Commercial Mortgage Pass-Through	3.3%	1.32	0.91%
Commercial Mortgage Pass-Through	3.3%	0.44	0.30%
Commercial Mortgage Pass-Through	6.1%	0.19	0.13%
Federal Home Loan Mortgage Corp Structured Pass-Through	1.5%	0.12	0.09%
		$ 4.39	3.03%

Discretely Presented Component Units

Port of Oakland

The Port's cash, cash equivalent, investments and deposits consisted of the following at June 30, 2005 (in thousands):

Bank Deposit	
Cash on hand and at bank	$ 3
Bank deposit – escrow in-lieu of retentions	7,440
Investments	461,616
Total Cash, Cash Equivalent, Investment and Deposits	$ 469,059

Bank deposits consist of amounts received from construction contractors that are deposited into an escrow account in-lieu of retention withheld from construction progress billings. Interest on these deposits accrues to the contractor.

Investments

Under the City of Oakland Charter, all income and revenue from the operation of the Port is to be deposited in the City Treasury. Bonds are deposited with a Trustee for both reserves and construction funds. The investment of funds held by a Trustee is governed by the 1989 Trust Indenture as amended. Escrow funds are on deposit with an escrow agent.

At June 30, 2005 the Port had the following investments (in thousands):

			Maturities		
	Fair Value	Credit Rating	Less than 1 Year	1 - 5 Years	5 or More Years
U.S. Treasury Note	$ 11,960	Not Rated	$ -	$ 11,960	$ -
Federal Agency Securities	244	AAA	132	112	-
Government Securities Money Market Mutual Funds	1,791	AAA	1,791	-	-
Investment Agreement	314,872	Not Rated	-	234,342	80,530
Commercial Paper	1,106	A-1+	1,106	-	-
City Investment Pool	131,643	AAA	131,643	-	-
Total Investment	**$ 461,616**		**$ 134,672**	**$ 246,414**	**$ 80,530**

An "Investment Agreement" is a non-marketable interest bearing agreement with or guaranteed by certain financial institutions. Moneys invested include construction and reserve funds.

Investments Authorized by Debt Agreements

The following are the maximum maturities for each type of investment as allowed under the Trust Indenture and the applicable Supplemental Indenture for each bond issue.

Authorized Investment Type	Maximum Maturity
U.S Government Securities	None
U.S. Treasury & Agency Obligations	None
Obligations of any State in the U.S.	None
Prime Commercial Paper	270 days
FDIC or FSLIC Insured Deposits	None
Certificates of Deposits/Banker's Acceptances	365 Days
Money Market Mutual Funds	None
State-sponsored investment pools	None
Investment Agreements	None
Forward Delivery Agreement	None

Interest Rate Risk

Most bond proceeds are invested in Investment Agreements structured so that the entire amount of the investment is available if the need should arise, regardless of changes in the interest rates.

Credit Risk

Provisions of the Port's Trust Indenture limit the Port's investment to agreements or financial institutions that, at the time of investment, are rated Aaa by Moody's and AAA by Standard & Poor's (S&P). Providers must also maintain ratings of at least Aa3 by Moody's or AA- by S&P and all current providers exceed these minimums.

Concentration of Credit Risk

The Trust Indenture places no limit on the amount the Port may invest in any one issuer. Those that exceed 5% of the total investment are as follows.

Investment	Investment Type	% of Investments
Bayerische LandesBank Girozentrale	Investment Agreement	6.28%
FSA Capital Management Services LLC	Investment Agreement	5.87%
AMBAC Capital Funding, Inc.	Investment Agreement	22.84%
CDC Funding Corp	Investment Agreement	22.80%
XL Asset Funding Company I LLC	Investment Agreement	9.10%
City Investment Pool	City Pool	28.52%

Port revenues are deposited in the City Treasury. These and all the City funds are commingled and invested in the City's investment pool. The City's investment portfolio average maturity may not exceed 540 days. The maximum maturity for any one investment may not exceed 5 years. Authorized investments included federal agency obligations, repurchase agreements, reverse repurchase agreements, secured obligations and agreements, state investment pool (Local Agency Investment Fund), bonds of the City or its agencies, State of California bonds, bankers' acceptances, commercial paper, medium-term corporate bonds and notes, negotiable certificates of deposit, certificates of deposit, and money market mutual funds. All investments deposited in the City Treasury are insured or registered, or held by the City or its agent in the City's name. The City's investment pool is rated annually. Additional information regarding deposit custodial credit, interest and credit risks, and securities lending transactions of the City's investment pool is presented in the notes of the City's basic financial statements

Cash and Investments with the City of Oakland

Pursuant to the City Charter, Port operating revenues are deposited in the City Treasury. These funds are commingled in the City's investment pool. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily balance on deposit and the earnings of the investments.

Restricted Cash and Investments

Port bond resolutions authorize the investment of restricted cash, including deposits, with fiscal agents for debt service and construction funds. Authorized investment securities are specified in the various bond indentures. Authorized investments are U.S. Treasury obligations, bank certificates of deposit, federal agency obligations, certain state and secured municipal obligations, long-term and medium-term guaranteed corporate debt securities in the two highest rating categories, commercial paper rated prime, repurchase agreements, certain money market mutual funds, and certain guaranteed investment contracts.

Deposits and Investments

The carrying amount of Port deposits with banks and cash on hand was $7.4 million at June 30, 2005. Bank balances and escrow deposits of $7.4 million at June 30, 2005, respectively, are insured or collateralized with securities held by the pledging financial institution's trust departments in the Port's name.

The California Government Code requires governmental securities or first trust deed mortgage notes as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in the Port's name.

All investments subject to custodial credit risk categorization are Category 1 investments.

Oakland Base Reuse Authority (OBRA)

Cash and Investment at June 30, 2005 consist of the following (in thousands):

	Fair Value
Unrestricted investment	$6,060
Restricted:	
Deposit	7,361
Investment	1,571
	8,932
Total	$14,992

Deposits

At June 30, 2005, the carrying amount of OBRA's deposits was $7.4 million and the bank balance was $5.1 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and non-negotiable certificates of deposit. Of the bank balance, $0.1 million was FDIC insured and $5.0 million was collateralized with securities held by the pledging financial institution in OBRA's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in OBRA's name.

Investments

OBRA's governing body has adopted the same investment policy as adopted by the Oakland City Council. Accordingly, all cash and investments are invested in accordance with this policy. The Authority had no investments subject to categorization at June 30, 2005.

Investments consisted of the following fair value at June 30, 2005 (in thousands):

	Fair Value	Credit Risk	Effective Duration
Money market funds	$6,060	Unrated	—
Escrow deposit	2,250	Unrated	—
Deposits with banks	5,111	Unrated	—
Local Agency Investment Fund	1,571	Unrated	—
Total cash and investments	$14,992		

(4) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash and interfund loans. The amounts due from the Oakland Redevelopment Agency are related to advances and interfund loans made by the City for projects, loans and services. The receivable amounts in the Agency relate to project advances made by the Agency for the City. The composition of interfund balances as of June 30, 2005, is as follows (in thousands):

DUE FROM/DUE TO OTHER FUNDS:

Receivable Fund	Payable Fund	Amount
General Fund	Federal/State Grant Fund	$ 20,450
	Oakland Redevelopment Agency	387
	Other Governmental Funds	10,930
	Sewer Service Fund	4,748
	Internal Service Funds	30,136
	Pension Trust Funds	2,070
TOTAL		68,721
Federal/State Grant Fund	Oakland Redevelopment Agency	2,842
Oakland Redevelopment Agency	General Fund	25,110
	Federal/State Grant Fund	2,985
	Other Governmental Funds	3,027
	Sewer Service Fund	3
TOTAL		31,125
Other Governmental Funds	Oakland Redevelopment Agency	3,440
TOTAL		$106,128

INTERFUND TRANSFERS:

TRANSFER OUT	TRANSFERS IN General Fund	Other Governmental Funds	Total Governmental	Internal Service Funds	Total
General Fund	$ -	$ 82,405	$ 82,405	$ -	$ 82,405
Municipal Capital Improvement Fund	6,300	-	6,300	-	6,300
Other Governmental Funds	20,606	-	20,606	-	20,606
Sewer Service Fund	600	-	600	21	621
Internal Service Fund	-	-	-	263	263
Total	**$ 27,506**	**$ 82,405**	**$ 109,911**	**$ 284**	**$ 110,195**

The $82.4 million transferred from the General Fund consists of transfers made to provide funding for the following:

- $ 8.8 million for the Kids' First Children's Program;
- $14.6 million for special refunding revenue bonds; and
- $59.0 million for debt service payments.

The $20.6 million transferred from Other Governmental Funds to the General Fund consist of the following:

- $17.7 million is proceeds from the 2005 JPFA Series B Bonds to be contributed to PFRS to pay for a portion of the City's obligations under its Charter to PFRS; and
- $2.9 million is the unwinding of the 1998 reserve fund, including accrued interest, transferred to the General Fund.

The $6.3 million transferred from the Municipal Capital Improvement Fund to the General Fund is for the Oakland Convention Center operations.

The $0.6 million transfer from the Sewer Service Fund is to provide funds for City-wide lease payments.

INTERFUND LOANS:

Certain interfund loans made from the General Fund to the ORA Governmental Fund have been removed as they are not expected to be repaid within a reasonable period of time. The loans continue to be obligations of the ORA, and will be recognized as other financing sources in the general fund upon receipt. The loan balances are as follows:

Oak Center Project	$ 13,086
City Center Garage	18,349
Total	$ 31,435

(5) MEMORANDUMS OF UNDERSTANDING

The City and the Port have Memorandums of Understanding (MOUs) relating to: (a) general obligation bonds issued by the City for the benefit of the Port; (b) various administrative, personnel, data processing, and financial services (Special Services); and (c) police, fire, public street cleaning and maintenance, and similar services (General Services) provided by the City to the Port.

Payments for Special Services are treated as a cost of Port operations and have priority over certain other expenditures of Port revenues. At June 30, 2005, $18,828,000 in Special Services expenses has been accrued as a current liability by the Port and as a receivable by the City.

The Port’s legal counsel advised the Port that payments to the City for General Services and Lake Merritt tideland trust purposes are payable only to the extent the Port determines annually that surplus monies are available. Subject to final approvals by the Port and the City, and subject to availability of surplus monies, the Port will reimburse the City annually for General Services and Lake Merritt tideland trust properties. At June 30, 2005, $2,241,000 and $1,213,000 have been accrued by the Port as a current liability and by the City as a receivable for General Services and Lake Merritt Tideland Trust properties, respectively.

The City and Port are in the process of negotiating an MOU for payments to be made by the Port to the City in consideration for services provided by the City on Tidelands Trust properties. Such payments are expected to amount to $3,000,000 per year, and represent a portion of the total expenses incurred by the City in the provision of services within the Lake Merritt Tidelands boundaries. Included in the amount recorded as a receivable from the Port is $2,500,000 for fiscal year 1997, which the Port has also recorded as an obligation due to the City. Any additional amount due to the City will be recorded when an MOU has been executed.

(6) NOTES AND LOANS RECEIVABLE

The composition of the City's notes and loans receivable as of June 30, 2005, is as follows (in thousands):

Type of Loan	General Fund	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds/ Governmental Activities
Pass-through loans	$ 24,756	$ 2,985	$ —	$ 799	$ 28,540
Loans to Oakland Hotel Assoc. Ltd	12,038	—	—	—	12,038
Community Development Block Grant	—	62,777	—	—	62,777
Economic Development loans and other	1,932	18,164	52,428	15,049	87,573
Less: Allowance for uncollectible accounts	(107)	(5,138)	(1,077)	(168)	(6,490)
TOTAL LOANS, NET	$ 38,619	$ 78,788	$ 51,351	$ 15,680	$ 184,438

(7) CAPITAL ASSETS

Primary Government

Capital assets activity of the primary government for the year ended June 30, 2005, is as follows (in thousands):

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 76,604	$ 538	$ —	$ 77,142
Museum Collections	—	150	—	150
Construction in progress	7,083	20,070	3,743	23,410
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	83,687	20,758	3,743	100,702
Capital assets, being depreciated:				
Facilities and improvements	645,581	10,513	8	656,086
Furniture, machinery and equipment	160,287	7,479	161	167,605
Infrastructure	353,929	24,724	1,544	377,109
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,159,797	42,716	1,713	1,200,800
Less accumulated depreciation:				
Facilities and improvements	207,241	19,590	—	226,831
Furniture, machinery and equipment	102,579	13,467	157	115,889
Infrastructure	107,632	11,816	41	119,407
TOTAL ACCUMULATED DEPRECIATION	417,452	44,873	198	462,127
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	742,345	(2,157)	1,515	738,673
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	$ 826,032	$ 18,601	$ 5,258	$ 839,375

(continued)

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Business-type activities:				
Sewer fund:				
Capital assets, not being depreciated:				
Land	$ 4	$ —	$ —	$ 4
Construction in progress	2,882	1,959	61	4,780
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	2,886	1,959	61	4,784
Capital assets, being depreciated:				
Facilities and improvements	306	—	—	306
Furniture, machinery and equipment	749	—	—	749
Sewers and storm drains	173,131	3,053	—	176,184
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	174,186	3,053	—	177,239
Less accumulated depreciation:				
Facilities and improvements	30	20	—	50
Furniture, machinery and equipment	701	11	—	712
Sewers and storm drains	58,604	3500	—	62,104
TOTAL ACCUMULATED DEPRECIATION	59,335	3,531	—	62,866
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	114,851	(478)	—	114,373
SEWER FUND CAPITAL ASSETS, NET	117,737	1,481	61	119,157
Other proprietary funds:				
Capital assets, not being depreciated:				
Land	218	—	—	218
Capital assets, being depreciated:				
Facilities and improvements	2,179	—	—	2,179
Furniture, machinery and equipment	453	—	—	453
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	2,632	—	—	2,632
Less accumulated depreciation:				
Facilities and improvements	191	146	—	337
Furniture, machinery and equipment	424	6	—	430
TOTAL ACCUMULATED DEPRECIATION	615	152	—	767
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	2,017	(152)	—	1,865
OTHER PROPRIETARY FUND CAPITAL ASSETS, NET	2,235	(152)	—	2,083
TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	$ 119,972	$ 1,329	$ 61	$ 121,240

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental activities:	
General government	$ 5,175
Public safety:	
Police services	948
Fire services	2,921
Life enrichment	11,541
Community and economic development	2,512
Public works	16,920
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	4,856
TOTAL	$ 44,873
Business-type activities:	
Sewer	$ 3,531
Golf	152
TOTAL	$ 3,683

Construction Commitments

The City has active construction projects as of June 30, 2005. The projects include street construction, park construction, building improvements and sewer and storm drain improvements (in thousands).

	Spent to date	Remaining Commitment
Infrastructure – streets	$ 92,621	$ 50,031
Infrastructure – parks	14,057	39,863
Facility improvements	22,878	34,065
Sewers and storm drains	10,414	49,315
Technology Enhancements	13,800	5,587
Miscellaneous	14,058	8,676
TOTAL	$167,828	$187,537

Discretely Presented Component Units

Port of Oakland

Capital assets activity for the Port for the year ended June 30, 2005, is as follows (in thousands):

	Balance July 1, 2004	Additions	Adjustment and Retirements	Transfer of Completed Construction	Balance June 30, 2005
Capital assets, not being depreciated:					
Land	$ 261,326	$ 6,561	$ 56,288	$ —	$ 324,175
Construction in progress	238,160	215,145	50	(82,276)	371,079
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	499,486	221,706	56,338	(82,276)	695,254
Capital assets, being depreciated:					
Facilities and improvements	547,537	—	(3,612)	35,033	578,958
Container cranes	152,221	—	—	552	152,773
Systems and structures	1,064,624	887	(57,538)	43,957	1,051,930
Other equipment	38,760	1,574	(6,423)	2,734	36,645
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	1,803,142	2,461	(67,573)	82,276	1,820,306
Less accumulated depreciation:					
Facilities and improvements	237,485	22,873	1,440	—	258,918
Container cranes	46,350	6,058	—	—	52,408
Systems and structures	224,506	36,598	2,807	—	258,297
Other equipment	23,088	2,920	5,940	—	20,068
TOTAL ACCUMULATED DEPRECIATION	531,429	68,449	10,187	—	589,691
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	1,271,713	65,988	(57,386)	82,276	1,230,615
TOTAL CAPITAL ASSETS, NET	$1,771,199	$ 155,718	$ (1,048)	$ —	$1,925,869

The depreciation charge above reconciles to the Statements of Revenue, Expenses and Changes in Net Assets as follows:

Depreciation charge above	$68,449
Amortization of intangible assets	443
Depreciation and amortization	$68,892

The capital assets on lease at June 30, 2005, consist of the following (in thousands):

Land	$ 172,888
Container cranes	152,773
Facilities and improvements	932,853
Total	1,258,514
Less accumulated depreciation	(257,608)
Capital assets, net, on lease	$ 1,000,906

Leases

A major portion of the Port's capital assets is held for lease. Leased assets include maritime facilities, aviation facilities, office and commercial space, and land. All leases are classified as operating leases.

Certain maritime facilities are leased under agreements, which provide the tenants with preferential, but nonexclusive, use of the facilities. Certain leases provide for rentals based on gross revenues of the leased premises or, in the case of marine terminal facilities, on annual usage of the facilities. Such leases generally provide for minimum rentals, and certain preferential assignments provide for both minimum and maximum rentals.

A summary of revenues from long-term leases for the year ended June 30, 2005, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	$105,694
Contingent rentals in excess of minimums	16,337
Secondary use of facilities leased under preferential assignments	3,055
	$125,086

Minimum future rental revenues for years ending June 30 under non-cancelable operating leases having an initial term in excess of one year are as follows (in thousands):

Year	Rental Revenues
2006	$ 114,027
2007	124,194
2008	128,835
2009	126,860
2010	113,011
2011-2015	443,278
2016-2020	149,852
2021-2025	18,767
2026-2030	16,209
2031-2035	14,582
Thereafter	53,725
	$1,303,340

Oakland Base Reuse Authority (OBRA)

Capital asset activity for OBRA during the year ended June 30, 2005 consisted of the following (in thousands):

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, being depreciated:				
Facilities and structures	$1,000	$ —	$ —	$ 1,000
Leasehold improvements	456	2	—	458
Total capital assets, being depreciated	1,456	2	—	1,458
Less accumulated depreciation for:				
Facilities and structures	314	343	—	657
Leasehold improvements	164	146	—	310
Total accumulated Depreciation	479	489	—	968
Total capital assets, being depreciated, net	$ 977	$ 487	$ —	$ 490

The depreciation charge for the year ended June 30, 2005 is $0.5 million, which reconciles to the Statements of Revenue, Expenses and Changes in Net Assets.

(8) PROPERTY HELD FOR RESALE

A summary of changes in property held for resale follows (in thousands):

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Property held for resale	$ 71,501	$ 2,818	$ 16,581	$ 57,738

The increase of $2,818,000 in the property held for resale represents the 135 public parking spaces repurchased by the Agency from the developer of the SNK 9th and Franklin Garage. These parking spaces were required to be repurchased in order to replace the surface parking that was on the site prior to the Agency's sale of the property to the developer in Fiscal Year 2004.

The decrease of the $16,581,000 corresponds to the properties that the Agency sold in Fiscal Year 2005 including four properties sold at a loss of $1.4 million. These include properties that will be renovated for commercial retail and office spaces, developed into residential condominium units and to continue to be operated as a non-profit office park.

Discretely Presented Component Unit

Oakland Base Reuse Authority (OBRA)

A summary of changes in property held for resale follows (in thousands):

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Property held for resale	$79,778	$11,762	$2,132	$89,408

On August 7, 2003, the Army conveyed approximately 366 acres of Oakland Army Base (the EDC property), plus certain buildings and improvements, to OBRA. The conveyance from the Army is treated as a donation; accordingly, the land conveyed to OBRA was recorded at its total estimated fair market value of $81,775,000. As part of the conveyance agreement, OBRA agreed to pay the Oakland Army Base Workforce Development Collaborative (Workforce Collaborative) an amount to be negotiated. OBRA and the Workforce Collaborative finalized an agreement on December 14, 2004, which provided that OBRA, the Agency and the Port would pay a total of $10,800,000 to the Workforce Collaborative. Under a separate agreement between OBRA and the Port dated July 31, 2003, the two parties agreed to each pay 50 percent of the $10,800,000 liability.

OBRA recorded capital contributions of $74,407,184 and payable of $5,400,000 to the Workforce Collaborative during the year ended June 30, 2004 to reflect the conveyance of the land. All expenditures directly associated with the conveyance of the EDC property incurred prior to August 7, 2003 were included in other assets, and transferred to property held for resale on this date. OBRA incurred property-related expenditures between August 7, 2003 and June 30, 2005 that have been recorded in property held for resale.

Immediately after OBRA obtained title to the EDC property, 70 acres (including 50 acres of submerged property) were conveyed to the Port at a fair value of $5,250,000.

On September 1, 2004, the Authority purchased certain parcels of land with an aggregate area of 19.32 acres adjacent to the former OAB for a total of $10,600,000. Immediately after purchasing this property, the Authority transferred 2.51 acres to the Port for total consideration of $1,427,000. Additionally, approximately $1,200,000 in environmental remediation costs incurred during the fiscal year ended June 30, 2005 have been added to property held for resale.

(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE

Accounts payable and accrued liabilities payable as of June 30, 2005, for the City's individual major funds, non major funds in the aggregate, business-type activities – enterprise fund and internal service funds, are as follows (in thousands):

	Accounts Payable	Checks Payable	Accrued Payroll/ Employee Benefits	Total
Governmental funds:				
General	$ 19,818	$4,067	$78,296	$102,181
Federal/state grant fund	4,039	—	1,069	5,108
Oakland Redevelopment Agency	9,456	—	—	9,456
Municipal Capital Improvement Fund	1,224	—	87	1,311
Other governmental funds	3,436	—	73	3,509
TOTAL	37,973	4,067	79,525	121,565
Governmental activities- Internal service funds	1,005	—	157	1,162
TOTAL	$ 38,978	$ 4,067	$79,682	$122,727
Business-type activities – Enterprise Funds:				
Sewer Service	$ 193	$ —	$ 790	$ 983

Accounts payable and accrued liabilities for the pension trust funds at June 30, 2005, are as follows (in thousands):

Accounts payable	$ 7
Investment payable	130,407
Accrued investment management fees	360
Member benefits payable	5,977
TOTAL ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 136,751

(10) DEFERRED REVENUE

Governmental funds report deferred revenue in connection with unearned revenue and receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2005, the various components of deferred revenue and unearned revenue reported were as follows:

	Unavailable	Unearned
Major funds:		
General Fund	$ 22,312	$ 7,570
Federal and State Grants Funds	83,647	834
Oakland Redevelopment Agency	81,190	—
Municipal Capital Improvement Fund	21	—
Non-major Funds:		
Other Governmental Funds	19,046	—
TOTAL GOVERNMENTAL ACTIVITIES	$206,216	$ 8,404

(11) TAX AND REVENUE ANTICIPATION NOTES PAYABLE

The City issued tax and revenue anticipation notes in advance of property tax collections. The notes were used to satisfy General Fund obligations and carried an approximate effective interest rate of 1.44%. Principal and interest were paid on June 30, 2005.

The short-term debt activity for the year ended June 30, 2005, is as follows (in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax and Revenue Anticipation Notes	$—	$ 65,000	$ (65,000)	$—

(12) LONG-TERM OBLIGATIONS

Long-term Obligations

The following is a summary of long-term obligations for the year ended June 30, 2005 (in thousands):

Governmental Activities			
Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
General obligation bonds (A)	2033	2.50-5.00%	$ 227,010
Tax allocation bonds (B)	2033	2.50-8.03%	270,085
Certificates of participation (C)	2015	4.00-6.55%	50,195
Lease revenue bonds (C)	2026	3.60-5.50%	488,721
Pension obligation bonds (D)	2022	6.09-7.31%	366,405
Accreted interest (C) & (D)			70,811
City guaranteed special assessment district bonds (D)	2024	4.60-6.70%	7,370
Notes payable (C) & (E)	2016	1.70-8.27%	18,440
Capital Leases (C) & (E)	2016	3.54-5.52%	26,769
Accrued vacation and sick leave (C)			31,503
Self-insurance liability for workers' compensation (C)			96,166
Estimated claims payable (C)			43,099
Estimated environmental cost (B) & (C)			5,499
Pledge obligation for authority debt (C)			91,150
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS			1,793,223
DEFERRED AMOUNTS:			
Bond issuance premiums			$ 24,186
Bond refunding loss			(22,793)
GOVERNMENTAL ACTIVITIES TOTAL LONG-TERM OBLIGATIONS, NET			$ 1,794,616

Debt service payments are made from the following sources:
(A) Property tax recorded in the debt service funds
(B) Property tax allocated to the Oakland Redevelopment Agency based on increased assessed valuations in the project area
(C) Revenues recorded in the general fund
(D) Property tax voter approved debt
(E) Revenues recorded in the special revenue funds

Business-Type Activities

Entity and Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Sewer fund – Notes payable	2014	3.0-3.50%	$ 5,655
Sewer fund – Bonds	2029	3.0-5.25%	62,330
Unamortized Bond Premium			2,829
BUSINESS-TYPE ACTIVITIES – TOTAL LONG-TERM OBLIGATIONS			$70,814

Component Unit - Port of Oakland

Type of Obligation	Final Maturity Year	Remaining Interest Rates	Amount
Parity bonds	2033	2.75-6.00%	$ 1,410,431
Notes and loans	2029	1.25-6.80%	157,135
			1,567,566
Self-insurance liability for workers' compensation			4,600
Total			1,572,166
Unamortized bond discount and premium, net			(891)
Deferred loss on refunding			(5,220)
COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS			$ 1,566,055

Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures held by the City and Agency. Management believes that the City and Agency are in compliance.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2005, the City's debt limit (3.75% of valuation subject to taxation) was $903,392,821. The total amount of debt applicable to the debt limit was $227,010,000. The resulting legal debt margin was $676,382,821.

Interest Rate Swaps

Oakland Joint Powers Financing Authority Lease Revenue Bonds, 1998 Series A1/A2
Objective of the interest rate swap. As a means to lowering its borrowing costs, the City entered into a Forward Swap (the "Swap") in connection with its $187,500,000 Oakland Joint Powers Financing Authority (the "Authority") Lease Revenue Bonds, 1998 Series A1/A2. The intent of the interest rate swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 5.6775% through the end of the swap agreement in 2021. On April 25, 2000, the Swap was assigned to Goldman Sachs Mitsui Marine Derivative Products, U.S., L.P (the "Counterparty") in the notional amount of $170,000,000.

On March 21, 2003, the City amended the swap agreement to change the index on which the Swap is based from the Bond Market Association index to a rate equal to 65% of the 1-month London Interbank Offer Rate (the "65% of LIBOR Rate"). This amendment resulted in the City receiving approximately $5,975,000 from Goldman Sachs reflecting the change in market value. The funds received as a result of the change in the Swap index were used to lower cost of borrowing when used in combination with the Bonds, and enhance the relationship between risk and return with respect to the City's overall bond program. As of June 30, 2005, the notional amount to be amortized was $128,300,000.

Terms. The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2005 of $128,300,000. The notional amount of the swap declines through 2021. Under the Swap, the Authority pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The Authority's payments to the counterparty under the Swap agreement are insured by the third party bond insurer.

Fair Value. Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of $24,452,209 as of June 30, 2005. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the Swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The Counterparty was rated Aaa by Moody's Investors Service, and AA+ by Standard and Poor's as of June 30, 2005. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's the swap agreement provides the counterparty, the City, the bond insurer for the Bonds and a third party collateral agent to execute a collateral agreement within 30 days of such a downgrade.

Basis Risk. Another risk associated with the synthetic fixed rate swap is basis risk. This is the risk that as the City receives a floating rate index on the swap to offset the variable rate it pays on its underlying variable rate bonds, these two variable rate cash flows could potentially mismatch. The swap agreement provides that the payment received by the City shall be at 65% of 1-month LIBOR.

Termination Risk. An interest rate swap has some degree of termination risk. Linked to counterparty risk, a termination of the swap will result in a payment being made or received by the City depending on the then prevailing interest rate environment. The City may terminate the Swap if the counterparty fails to perform under the terms of the contract. The City also may terminate the Swap if the counterparty fails to execute a collateral agreement satisfactory to the City and the bond insurer within 30 days of the counterparty's ratings falling below "A3" by Moody's Investors Service or "A-" by Standard and Poor's.

The counterparty may terminate the Swap if both the City and the bond insurer fail to perform under the terms of the contract. The counterparty also may terminate the Swap upon the occurrence of the following events: 1) the bond insurer falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's; and 2) the City falls below "Baa3" by Moody's Investors Service or "BBB-" by Standard and Poor's. If the Swap is terminated, the variable rate Bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the Swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the Swap's fair value.

On June 21, 2005, the Authority issued its $144,950,000 Refunding Revenue Bonds, 2005 Series A-1, A-2 and B ("Series 2005 A & B Bonds"). A portion of the proceeds were used to refund and defease all of the Authority's outstanding Lease Revenue Bonds, 1998 Series A. However, the Interest Rate Swap Agreement associated with the 1998 Series A Bonds still remains in effect and set to terminate on July 31, 2021. Please refer to the Section titled "Current Year Refunding" of this footnote for a more detailed description of the Series 2005 A & B Bonds.

Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Administration Buildings), 2004 Series A-1/A-2

Objective of the Interest Rate Swap. On May 21, 2004, the City entered into a floating-to-fixed rate ("fixed-payer") interest rate swap with Bank of America, N.A. and UBS AG ("Counterparties") in order to lock-in the low long-term interest rates available in the market place at that time. The swap became effective on June 10, 2004, in conjunction with the issuance of the $58,600,000 Series A-1 and $58,600,000 Series A-2 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds, Oakland Administration Buildings (Auction Rate Securities).

The executed transaction consisted of a $117,200,000, 22-year interest rate swap under which the City will pay the Counterparties a fixed rate of 3.533% and receive 58% of 1-month London Interbank Offer Rate (LIBOR) plus 35 basis points (100 basis points equals 1%).

The City was able to take advantage of current market conditions and synthetically create fixed-rate debt at a very favorable rate. In addition to the decline in the general level of interest rates at that time, the City, after careful review, elected to utilize percentage of LIBOR (58%) plus a margin (35 basis points) versus a straight percentage of LIBOR to reduce the basis risk in a lower interest rate environment.

Terms. The bonds mature on August 1, 2026, and are subject to optional redemption while any Auction Rate is in effect equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium. The swaps terminate on August 1, 2026, and have a total notional amount of $112,550,000 as of June 30, 2005. The trade date of the swap was May 21, 2004, and became effective on June 10, 2004, at which time the bonds were issued. Under the swap, the City pays the counterparties a fixed rate of 3.533% and receives a variable payment computed at 58% of 1-month LIBOR plus 35 basis points. The Authority then pays the bondholder a tax-exempt variable rate of interest.

Fair Value. As of June 30, 2005, the interest rate swap with Bank of America, N.A. (notional amount of $56,275,000) had a negative fair value of $3,558,596 and the interest rate swap with UBS AG (notional amount of $56,275,000) had a negative fair value of $3,641,278. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk. The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The counterparties were rated as follows as of June 30, 2005: Bank of America, N.A. (Aa2 by Moody's Investors Service and AA- by Standard and Poor's), and UBS AG (Aa2 by Moody's Investors Service, AA+ by Standard and Poor's, and AA+ by Fitch).

To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's, the swap agreement provides that the counterparty, the City, the bond insurer for the Bonds, and a third party collateral agent are to execute a collateral agreement establishing the type of collateral, the amount of collateral, the collateral agent, and the terms of the collateral agreement.

Basis Risk. Another risk associated with the synthetic fixed rate swap is basis risk. This is the risk that as the City receives a floating rate index on the swap to offset the variable rate it pays on its underlying variable rate bonds, these two variable rate cash flows could potentially mismatch. The swap agreement provides that the payment received by the City shall be at 58% of 1-month LIBOR plus 35 basis points.

Termination Risk. An interest rate swap has some degree of termination risk. Linked to counterparty risk, a termination of the swap will result in a payment being made or received by the City depending on the then prevailing interest rate environment. The City may terminate the swap if the counterparty fails to perform under the terms of the contract. The City may also terminate the swap if the counterparty fails to execute a collateral agreement satisfactory to the City and the bond insurer if the counterparty's ratings fall below "A3" by Moody's Investors Service or "A-" by Standard and Poor's. The termination events are bilateral agreements between the City and the counterparties. If the swap is terminated, the variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap Payments and Associated Debt. The following table presents the estimated debt service requirements for the 2004 Series A Bonds. It is assumed that the interest rate on the 2004 Series A Bonds and the variable rate portion of the Swap (58% of LIBOR) averages 3.00% through the maturity date of both the 2004 Series A Bonds and the Swap (August 21, 2026).

Year Ending June 30	Principal	Interest*	Net Interest Rate Swap Payment*	Total Debt Service
2006	$ 3,350,000	$ 3,150,181	$ 591,377	$ 7,091,558
2007	3,475,000	3,054,828	573,204	7,103,032
2008	3,575,000	3,247,424	554,428	7,376,852
2009	3,750,000	2,838,488	534,773	7,123,261
2010	3,875,000	3,009,606	514,623	7,399,229
2011	4,050,000	2,615,355	493,524	7,158,879
2012	4,175,000	2,746,337	471,620	7,392,957
2013	4,375,000	2,364,432	448,678	7,188,110
2014	4,525,000	2,244,799	425,159	7,194,958
2015	4,675,000	2,325,890	400,660	7,401,549
2016	4,875,000	1,967,880	375,233	7,218,113
2017	5,050,000	2,008,614	348,596	7,407,210
2018	5,275,000	1,672,171	321,316	7,268,488
2019	5,450,000	1,672,490	292,756	7,415,246
2020	5,675,000	1,350,026	263,136	7,288,161
2021	5,900,000	1,187,504	232,072	7,319,576
2022	6,125,000	1,120,983	200,297	7,446,280
2023	6,375,000	829,582	167,015	7,371,598
2024	6,600,000	709,596	132,465	7,442,060
2025	6,875,000	440,711	96,304	7,412,015
2026	7,125,000	267,545	59,309	7,451,853
2027	7,400,000	22,504	20,633	7,443,137
TOTALS	$112,550,000	$ 40,846,945	$ 7,517,177	$160,914,122

*Numbers of estimates; subject to change based on prevailing market conditions. The calculation above assumes to have a 3.00% interest rate and 3.556 swap rate.

Changes in Long-term Obligations

The changes in long-term obligations for the year ended June 30, 2005, are as follows (in thousands):

Governmental Activities

	Balance at July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements and Net Decreases	Balance at June 30, 2005	Amounts Due Within One Year
Bonds Payable					
General obligation bonds	$ 232,045	$ 122,170	$ 127,205	$ 227,010	$ 7,260
Tax allocation bonds	235,555	44,360	9,830	270,085	10,325
Certificates of participation	54,780	—	4,585	50,195	4,465
Lease revenue bonds	386,200	267,426	164,905	488,721	25,237
Pension obligation bonds	388,824	—	22,419	366,405	25,020
City guaranteed special assessment district bonds	7,940	—	570	7,370	285
Accreted interest on appreciation bonds	52,863	17,948	—	70,811	—
Less deferred amounts:					
Bond issuance premiums	11,830	13,535	1,179	24,186	1,603
Bond refunding loss	(20,333)	(5,132)	(2,672)	(22,793)	(2,924)
TOTAL BONDS PAYABLE	1,349,704	460,307	328,021	1,481,990	71,271
Notes payable	20,007	—	1,567	18,440	1,840
Capital leases	26,146	6,676	6,053	26,769	6,421
TOTAL NOTES & LEASES	46,153	6,676	7,620	45,209	8,261
Other Long Term Liabilities					
Accrued vacation and sick leave	37,436	43,979	49,912	31,503	27,600
Pledge Obligation for Coliseum Authority debt	93,950	—	2,800	91,150	3,050
Estimated environmental cost	—	5,849	350	5,499	4,502
Self-insurance workers' compensation	94,874	21,465	20,173	96,166	20,173
Estimated claims payable	48,716	1,356	6,973	43,099	13,992
TOTAL OTHER LONG TERM LIABILITIES	274,976	72,649	80,208	267,417	69,317
TOTAL GOVERNMENTAL ACTIVITIES – LONG TERM OBLIGATIONS	$1,670,833	$539,632	$415,849	$1,794,616	$148,849

Internal service funds predominantly serve the governmental funds and therefore, the long-term liabilities of these funds are included as part of the above totals for governmental activities. At June 30, 2005, $23,390,000 of capital leases related to the internal service funds are included in the above amounts.

Business-Type Activities

	Balance at July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements and Net Decreases	Balance at June 30, 2005	Amounts Due Within One Year
Sewer fund – Notes Payable	$ 6,362	$ —	$ 707	$ 5,655	$ 730
Sewer fund – Bonds	—	62,330	—	62,330	1,490
Unamortized Bond Premium	—	2,887	58	2,829	118
Total	$ 6,362	$65,217	$ 765	$ 70,814	$2,338

Component Unit - Port of Oakland

	Balance at July 1, 2004	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements and Net Decreases	Balance at June 30, 2005	Amounts Due Within One Year
Parity bonds	$ 1,418,586	$ —	$ 8,155	$ 1,410,431	$ 14,968
Notes and loans	194,983	2	37,850	157,135	510
TOTAL	1,613,569	2	46,005	1,567,566	15,478
Self-insurance workers' compensation	3,000	2,596	996	4,600	4,600
Unamortized bond discount/premium, net	(99)	868	(1,660)	(891)	946
Deferred loss on refunding	(5,584)	—	364	(5,220)	(364)
TOTAL DEBT	$ 1,610,886	$ 3,466	$ 45,705	$ 1,566,055	$ 20,660

Repayment Schedule

The annual repayment schedules for all long-term debt as of June 30, 2005, are as follows (in thousands):

	2006	2007	2008	2009	2010	2011-2015	2016-2020	2021-2025	2026-2030	2031-2035	Total
Government-type Activities:											
General obligation bonds:											
Principal	$ 7,260	$ 7,420	$ 7,760	$ 8,090	$ 8,435	$ 49,120	$ 56,325	$ 39,190	$ 26,595	$ 16,815	$ 227,010
Interest	10,674	10,474	10,200	9,902	9,586	41,504	28,868	15,522	8,324	1,584	146,637
Certificates of participation:											
Principal	4,465	5,067	5,300	5,620	5,965	24,710	4,200	—	—	—	55,327
Interest	3,068	3,008	1,909	1,693	1,434	3,237	84	—	—	—	14,433
Lease revenue bonds:											
Principal	25,237	26,295	27,476	28,830	29,926	175,518	97,762	60,703	16,975	—	488,721
Interest	23,962	22,635	21,298	19,829	18,344	66,658	30,335	9,425	587	—	213,073
Pension obligation bonds:											
Principal	25,020	27,850	30,920	34,250	37,860	117,130	93,534	65,520	—	—	432,084
Interest	9,928	8,118	6,091	3,833	1,321	73,594	136,262	107,000	—	—	346,146
City guaranteed special assessment bonds:											
Principal	285	285	305	320	345	1,720	1,840	2,270	—	—	7,370
Interest	390	376	361	345	328	1,353	883	328	—	—	4,364
Tax allocation bonds:											
Principal	10,325	10,920	11,165	11,775	11,130	66,020	89,530	48,475	5,340	5,405	270,085
Interest	12,876	12,301	11,674	13,255	13,154	50,914	28,130	6,777	2,149	586	151,817
Notes payable:											
Principal	1,840	2,600	1,940	2,080	2,230	7,750	—	—	—	—	18,440
Interest	1,072	1,275	545	469	388	619	—	—	—	—	4,368
Capital Leases:											
Principal	6,421	5,752	3,657	3,654	2,351	3,630	1,304	—	—	—	26.769
Interest	1,068	791	670	464	301	546	157	—	—	—	3,997
TOTAL PRINCIPAL	$ 80,853	$ 86,189	$ 88,523	$ 94,619	$ 98,242	$445,598	$344,495	$216,158	$ 48,910	$ 22,220	$1,525,806
TOTAL INTEREST	$ 63,038	$ 58,978	$ 52,748	$ 49,790	$ 43,856	$238,425	$224,719	$139,052	$ 11,060	$ 2,170	$ 884,835

The specific year for payment of estimated vacation, sick leave, workers' compensation, and estimated claims is not practicable to determine.

	2006	2007	2008	2009	2010	2011-2015	2016-2020	2021-2025	2026-2030	2031-2035	Total
Business-type Activities:											
Sewer Notes											
Principal	$ 2,220	$ 2,290	$ 2,365	$ 2,436	$ 2,543	$ 11,687	$ 12,575	$ 15,970	$ 15,900	$ —	$67,985
Interest	3,175	3,106	3,035	2,961	2,853	12,586	9,836	6,449	2,036	—	46,037

Component Unit – Port of Oakland

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2005, are as follows (in thousands):

Fiscal Year Ending	Principal	Interest	Total
2006	$ 15,478	$ 77,080	$ 92,558
2007	20,051	76,777	96,828
2008	28,300	76,502	104,802
2009	33,655	75,712	109,367
2010	36,583	74,757	111,340
2011-2015	395,123	311,591	706,714
2016-2020	300,673	239,698	540,371
2021-2025	270,147	163,393	433,540
2026-2030	317,329	81,014	398,343
2031-2033	150,227	10,156	160,383
SUBTOTAL	1,567,566	1,186,680	2,754,246
Unamortized bond (discount) premium, net	(891)	—	(891)
Self-insurance workers' compensation	4,600	—	4,600
Deferred loss on refunding	(5,220)	—	(5,220)
TOTAL	$1,566,055	$1,186,680	$2,752,735

Net interest costs of $14,782,000 were capitalized in fiscal 2005. These amounts represented capitalized interest expense of $23,698,000, net of interest revenue of $8,916,000 for fiscal 2005.

Component Unit – Oakland Base Reuse Authority

Note Payable

OBRA has a non-interest bearing note payable for $8,200,000, which has been discounted at the rate of 3.37% to a principal amount of $7,495,235. The discounting resulted in the reduction of $704,765 against Property Held for Resale. In addition, OBRA accrued interest expense of $156,553 for the year ended June 30, 2005 related to above liability.

Principal and interest payments are due on the following dates:

Date	Principal	Interest	Total
November 17, 2006	$1,481,909	$518,091	$2,000,000
May 17, 2007	2,898,675	101,325	3,000,000
November 17, 2007	2,147,518	52,482	2,200,000
November 17, 2008	967,133	32,867	1,000,000
	$7,495,235	$704,765	$ 8,200,000

The note payable is collateralized by 19.32 acres of property described in Note 8. Payments are applied first to any expenses in connection with the note before the principal is reduced. There are no prepayment penalties and the note is not assumable.

Notes payable activity for the year ended June 30, 2005 consisted of the following:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Note Payable	$ -	$ 7,495,235	$ -	$ 7,495,235

City of Oakland Sewer Revenue Bonds, 2004 Series A

On December 14, 2004, the City issued $62,330,000 of Sewer Revenue Bonds, Series 2004 A (the "2004 Series A Bonds"). The 2004 Series A Bonds have interest rates ranging from 3.00% to 5.25% and mature in 2029. In September 2003, the City Council adopted Ordinance No. 12540 increasing the sewer service charges commencing in the fiscal year 2004 and establishing annual increases of 11% through the annual billing period beginning on January 1, 2009, and establishing increases for the annual billing periods beginning on January 1, 2010, and thereafter increases based on the Consumer Price Index.

The proceeds from 2004 Series A Bonds will be used for the rehabilitation and, where necessary, replacement of sections of the existing sewer system, including the sewer pipelines and connections to private sewer lines. Upon completion of the project that is designed to reduce infiltration and inflow, increase the capacity of designated sewer pipes throughout the sewer system, and eliminate sewer overflows of untreated water into the San Francisco Bay, the system will allow for dry weather flows of approximately 72 million gallons per day and wet weather flows of approximately 435 million gallons per day.

City of Oakland Solar Panel Tax-Exempt Lease Transaction

On November 15, 2004, the City of Oakland (the "Lessee") entered into a 15-year Lease Financing Agreement with First Municipal Credit Corporation (the "Lessor") for $4,138,858 to finance the design and construction of solar photovoltaic generation systems as described in the Design/Build Agreement for the Solar Power and Energy Efficiency Project, between the Lessee and PowerLight Corporation (the "Contractor"). This financing was a capital lease with an interest rate of 4.25%.

The complete design and construction of certain solar photovoltaic generation systems will be located at the following sites in the City of Oakland: Municipal Service Center Buildings 2, 3, 4, 5, and 8 located at 7101 Edgewater Drive, Oakland, California; and the Oakland Ice Center located at 519, 18th Street, Oakland, California.

Enterasys Equipment Lease

On February 15, 2005, the electorate authorized the execution of a seven-year contract for the lease of network equipment and services with Enterasys, Inc., for an amount not to exceed $215,000 annually or $1,500,000 over the term of the contract. The purpose of the lease financing was to finance the installation and maintenance of equipment necessary to update the City's network telephone infrastructure. This financing was a capital lease and part of the lease was taxable at an interest rate of 5.522% and the tax-exempt portion was 3.54%.

On March 30, 2005, the City entered into a lease financing with Enterasys, Inc., in the amount of $1,139,884.

ShoreTel Equipment Lease

On February 15, 2005, the electorate authorized the successful completion of the City's Voice over IP pilot project and the execution of a seven-year contract for the lease of Telephone equipment and services with ShoreTel Communications, Inc., for an amount not to exceed $275,000 annually or $1,650,000 over the term of the contract. The purpose of the lease financing was to finance the purchase and installation of equipment necessary to update the City's network telephone infrastructure. This financing was a capital lease and part of the lease was taxable at an interest rate of 5.522% and the tax-exempt portion was 3.54%.

On March 30, 2005, the City entered into a lease financing with ShoreTel Communications, Inc., in the amount of $1,397,326.

Redevelopment Agency of the City of Oakland, Central District Redevelopment Project, Subordinated Tax Allocation Bonds, Series 2005

On February 8, 2005, the Agency issued Subordinated Tax Allocation Bonds, Series 2005 ("Series 2005 Bonds") in the aggregate principal amount of $44,360,000 to finance various redevelopment activities within the Central District Project Area. Interest rates on the Series 2005 Bonds are 5% with a final maturity of September 1, 2022. The Series 2005 Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Central District Project Area, including the following: property acquisition to facilitate residential and commercial development downtown, environmental remediation, parking garage expansion, renovation and maintenance of public facilities such as the Fox Theater, and public infrastructure such as streetscape and traffic improvements. Proceeds of the Series 2005 Bonds will also be used to fund façade improvements, tenant improvements, and support for all Agency sponsored public capital projects for Fiscal Years 2005 through 2007.

Current Year Refunding

$122,476,041, City of Oakland General Obligation Bonds, Series 2005 and $122,170,000, Oakland Joint Powers Financing Authority Revenue Bonds, Series 2005 (City of Oakland General Obligation Bond Program)

On June 16, 2005, the City issued City of Oakland General Obligation Bonds, Series 2005 (the "Oakland GO Bonds") in the aggregate amount of $122,476,041. Interest rates on the Oakland GO Bonds are 4.86% and the final maturity is December 15, 2025. The proceeds of the Oakland GO Bonds were used to defease six series of GO Bonds, consisting of City of Oakland General Obligation Bonds, Series 1992, Series 1995B, Series 1997, Series 1997C, Series 2000D, and Series 2000E.

Simultaneous with the issuance of the Oakland GO Bonds, the Oakland Joint Powers Financing Authority (JPFA) issued the Revenue Bonds, Series 2005 (the "JPFA Revenue Bonds") in the aggregate amount of $122,170,000. Proceeds of the JPFA Revenue Bonds together with the original issue premium of $10,147,940 were used to purchase the Oakland GO Bonds and to finance public capital improvements of the JPFA.

Interest rates on the JPFA Revenue Bonds range from 3.00% to 5.00%, and the final maturity is in the year 2025. The JPFA Revenue Bonds are insured by Ambac Assurance Corporation and are rated AAA/Aaa/AAA by Standard & Poor's, Moody's and Fitch, respectively.

The refunding resulted in cash flow savings of $5,131,776. In addition, the City obtained a net economic gain on this financing of $4,403,583.

$144,950,000, Oakland Joint Powers Financing Authority Revenue Bonds, Series 2005

On June 21, 2005, the Oakland Joint Powers Financing Authority issued its Refunding Revenue Bonds in an aggregate principal amount of $144,950,000; this issuance was comprised of two tax-exempt portions in aggregate amounts of $63,500,000 (Series A-1) and $63,475,000 (Series A-2) (collectively, the "Series A Bonds"), and a taxable portion in an aggregate amount of $17,975,000 (the "Series B Bonds"). Both the Series A Bonds and Series B Bonds were issued as Auction Rate Securities. The purpose of the Series A Bonds were to 1) refund and defease all of the JPFA's outstanding variable rate Lease Revenue Bonds, 1998 Series A (the "1998 Series A Bonds"), and 2) to pledge tax override revenues to pay for debt service on the Series A Bonds (previously, the City's General Fund paid for debt service payments on the 1998 Series A). The proceeds associated with the Series B Bonds were used to fund a portion of the City's obligation to make payments to its Police and Fire Retirement System.

The cash flow savings and the net economic gain/loss in connection with the refunding of the 1998 Series A Bonds by the Series A Bonds can not be determined due to the variable rate component of both series of bonds.

Prior Year's Debt Defeasance

In prior years, the City has defeased various bond issues by creating separate irrevocable escrow funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the escrow funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2005, the amount of defeased debt outstanding but removed from the City's government-wide financial statements amounted to $272.8 million.

Authorized and Unissued Debt

The net amount of authorized and unissued governmental activities – general obligation bonds as of June 30, 2005, was $21 million (Measure G). These bonds were authorized by the voters, in a City election, on March 5, 2002. The bonds are to be issued by the City to acquire, renovate, improve, construct, and finance existing and additional educational facilities for the Oakland Museum of California, the Oakland Zoo, and the Chabot Space and Science Center.

Also, the City has $126.8 million (Measure DD) General Obligation Bonds authorized and unissued. The voters, in a City election on November 5, 2002, authorized these bonds. The bonds are to be issued by the City in general obligation bonds for the improvement of Lake Merritt, the Estuary, inland creeks, Studio One, and other specifically identified projects in the City.

Conduit Debt

The following long-term debt has been issued by the City on behalf of named agents of the City. The bonds do not constitute an indebtedness of the City. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit nor the taxing authority of the City, State or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded. The conduit debt issued and outstanding at June 30, 2005, is (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2005
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999A	$ 64,425	01/01/29	$ 63,425
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999B	15,720	01/01/29	15,720
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/01/09	1,070
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern California), 1988	23,000	07/01/08	8,040
City of Oakland Refunding Revenue Bonds (Oakland YMCA Project), Series 1996	8,650	06/01/10	4,490
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	17,800
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc.)	5,800	07/01/33	5,800
TOTAL			$ 116,345

(13) GENERAL FUND UNRESERVED FUND BALANCE

The following designations reflect the City of Oakland's imposition of limitations on the use of the otherwise available expendable financial resources in the General Fund (in thousands).

Designations:

Pension obligations – PFRS	$59,726
Carryforward for Continuing projects	17,509
Motor vehicle-in-lieu backfill earmarked for FY 2006 budget	6,300
Lighting and Landscaping Assessment District gap funding for fiscal years 2006 and 2007	7,300
General Fund fiscal years 2005 to 2007 gap funding	3,200
Total designations	94,035
Unreserved/undesignated fund balance	46,308
Total General Fund unreserved fund balance	$140,343

(14) SELF-INSURANCE

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2005 and 2004, are as follows (in thousands):

Workers' Compensation

	2005	2004
Unpaid claims, beginning of fiscal year	$94,874	$91,367
Current year claims and changes in estimates	21,465	21,181
Claims payments	(20,173)	(17,293)
Unpaid claims, end of fiscal year (Note 12)	$96,166	$94,874

General Liability

	2005	2004
Unpaid claims, beginning of fiscal year	$48,716	$49,569
Current year claims and changes in estimates	1,356	7,452
Claims payments	(6,973)	(7,145)
Unpaid claims, end of fiscal year (Note 12)	$43,099	$48,716

The above estimated undiscounted liability for claims and contingencies is based on the results of actuarial studies and includes amounts for claims incurred but not reported and allocated loss adjustment expenses. The estimated liability is calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

Primary Government

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; employees injuries; natural disasters; unemployment coverage; and providing health benefits to employees, retirees and their dependents.

The City is self-insured for its general liability, workers' compensation, malpractice liability, general, and auto liability and has excess reinsurance with the California State Association of Counties – Excess Insurance Authority as described below.

Property Damage

Property damage risks are covered on an occurrence basis by commercial insurance purchased from independent third parties. All properties are insured at full replacement values after a $25,000 deductible to be paid by the City. For the past three years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial insurance coverage.

General Liability

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2005, the amount of liability determined to be probable of occurrence is approximately $ 43,099,000. Of this amount, claims and litigation approximating $13,992,000 are estimated to be due within one year. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated. The City and the Agency are involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the Agency's in-house counsel, the City Attorney's Office for the City, none of these claims are expected to have a significant impact on the financial condition of the City and the Agency or changes in financial position.

The City has not accumulated or segregated assets or reserved fund balance for the payment of estimated claims and judgments.

Workers' Compensation

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations. Of the $96,166,000 in claims liabilities as of June 30, 2005, approximately $20,173,000 is estimated to be due within one year.

Insurance Coverage

On July 15, 2002, the City entered into a contract with the California State Association of Counties - Excess Insurance Authority (CSAC EIA), a joint powers authority, whose purpose is to develop and fund programs of excess insurance for its member counties and cities. Self-insured retention levels and purchased insurance per occurrence are as follows:

Type of Coverage	Self-Insurance Retention	Insurance Authority/Purchase Insurance
General Liability	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence
Automobile Liability	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence
Public Officials Errors and Omissions	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual aggregate
Products & Completed Operations	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual aggregate
Employment Practices Liability	up to $2,000,000	$2,000,000 to $25,000,000 per occurrence/annual aggregate
Workers' Compensation	up to $1,000,000	$1,000,000 to $100,000,000 per occurrence/ annual aggregate

Discretely Presented Component Unit

Workers' Compensation

The Port is exposed to risk of loss related to injuries of employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of $1,000,000 per accident. The Port carries commercial insurance for claims in excess of $1,000,000 per accident. The excess policy provides full statutory limits as established by California law.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses are based on an actuarial valuation performed as of June 30, 2005 and include an estimate of claims that have been incurred but not reported. There were no workers' compensation claims paid in fiscal year ended 2005, 2004 and 2003 above the $1,000,000 per accident limit. Changes in the reported liability resulted from the following (in thousands):

	2005	2004
Workers' compensation liability at beginning of fiscal year	$ 3,000	$ 3,000
Current year claims and changes in estimates	2,596	1,184
Claim payments	(996)	(1,184)
Workers' compensation liability at end of fiscal year	$ 4,600	$ 3,000

General Liability

The Port maintains general liability insurance in excess of specified deductibles. For the airport, coverage is provided in excess of $250,000 in the aggregate up to a maximum of $200,000,000. For the harbor area and the Port's real estate holdings, coverage is provided in excess of $1,000,000 per occurrence up to an aggregate amount of $150,000,000 per occurrence. The Port is uninsured for losses in excess of these amounts. Casualty losses are accrued when it is determined that a loss to the Port is probable and the amount is estimable. Amounts have been accrued as other liabilities.

(15) JOINT VENTURE

Oakland-Alameda County Coliseum

The City is a participant with the County of Alameda (the County) in a joint exercise of powers agreement known as the Oakland-Alameda County Coliseum Authority (the Authority), which was formed on July 1, 1995, to assist the City and County in the financing of public capital improvements in the Oakland-Alameda County Coliseum Complex (Coliseum Complex) pursuant to the Mark-Roos Local Bond Pooling Act of 1985. The Oakland-Alameda County Coliseum Financing Corporation (the Corporation) is reported as a blended component unit of the Authority. The eight-member Board of Commissioners of the Authority consists of two council members from the City, two members of the Board of Supervisors from the County, two appointees of the City Council, and two appointees of the Board of Supervisors. The Board of Directors of the Corporation consists of the City Administrator and the County Administrator.

In August 1995, the Authority issued $9,200,000 in Fixed Rate Refunding Lease Revenue Bonds and $188,500,000 in Variable Rate Lease Revenue Bonds (collectively known as the Stadium Bonds) to satisfy certain obligations of the Authority, the City, the County, the Corporation and Oakland-Alameda County Coliseum Inc. (Coliseum Inc.), which manages the operations of the Coliseum Complex, to finance the costs of remodeling the stadium portion of the Coliseum complex as well as relocating the Raiders football franchise to the City.

The Stadium Bonds are limited obligations of the Authority payable solely from revenues of the Authority, consisting primarily of base rental payments to be received by the Authority from the City and the County. Certain revenues collected from Raiders football operations consisting of revenues from the sale of seat rights, as well as annual seat maintenance fees, a portion of net parking and concession revenues and concessionaires' initial fees, may be used toward meeting this liability. In the event that such football revenues are insufficient to make base rental payments, the City and the County are obligated to make up the shortfall in the base rental payments from their respective General Funds. The City and the County each have covenanted to appropriate $11 million annually to cover such shortfalls in revenue; however, the City and the County are jointly and severally liable to cover such shortfall, which means that the City could have to pay up to $22 million annually in the event of default by the County.

On May 25, 2000, the Authority issued $201,300,000 in series 2000 C and D Refunding Bonds to retire $181,900,000 of the 1995 Variable Rate Lease Revenue Stadium Bonds ($188,500,000 less $6,600,000 principal payment). In February 2004, the 1995 Fixed Rate Refunding Lease Revenue Bond was fully repaid from the escrow established in 1995 at the time the Coliseum Authority issued the Stadium Bonds.

On August 2, 1996, the Authority issued $70,000,000 Series A-1 and $70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Arena Bonds) to finance the costs of remodeling the Coliseum Arena (Arena) and to satisfy certain obligations of the Authority, the City, the County and Coliseum Inc. in connection with the retention of the Golden State Warriors to play professional basketball at the Arena for at least 20 basketball seasons, beginning with the 1997-98 season. These obligations are evidenced in a series of agreements (the Warriors Agreements) between the Warriors, the City, the County, Coliseum Inc. and the Authority.

Under the Warriors Agreements, the Arena Bonds were limited obligations of the Authority, payable solely from base rental revenues of the Authority received by the Authority on behalf of the City and the County. These revenues consist of base rental payments from the City and County and certain payments from the Warriors of up to $7,428,000 annually from premium seating revenues, and other payments from Arena operations. If the revenues received from the Warriors and from Arena operations are not sufficient to cover the debt service requirements in any fiscal year, the City and County are obligated to make up the shortfall in the base rental payment from their respective General Funds. The City and the County each have covenanted to appropriate up to $9,500,000 annually to cover such revenue shortfalls; however, the City and the County are jointly and severally liable to cover such shortfalls, which means that the City could have to pay up to $19,000,000 annually in the event of default by the County.

The Coliseum Authority entered into an agreement with the Oakland Coliseum Joint Venture to manage the entire Coliseum complex beginning July 1, 1998. On January 1, 2001, the Coliseum Authority terminated its agreement with Oakland Coliseum Joint Venture and reinstated its Operating Agreement with Oakland-Alameda County Coliseum, Inc. Oakland-Alameda County Coliseum, Inc. subcontracted all of the operations of the Coliseum Complex to Oakland Coliseum Joint Venture.

On September 27, 1997, the City of Oakland, the County of Alameda, and the Oakland-Alameda County Coliseum Authority, collectively known as the "East Bay Entities", filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively, "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage.

The suit asks for compensatory and punitive damages with regards to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties' rights, duties and obligations under the Master Agreement concerning the naming rights for the Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) under the Visiting Team Share Agreement concerning the reimbursement of legal fees and costs Raider Management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders Management cannot rescind or terminate its lease; and (2) the East Bay Entities do not have claims for damages; and (3) Coliseum, Inc. was the only East Bay entity against which the fraud claims could be tried. Raider Management increased their claim against the East Bay Entities for damages to $1.1 billion related to claims of fraudulent inducement. Prior to the trial, Raider Management agreed to arbitrate all breach of contract claims. At the conclusion of the trial, the jury found no liability on the fraud claims, but did award the Raiders damages of $34 million for negligent misrepresentation. This judgment has been entered only against Coliseum, Inc. Attorneys for the Oakland-Alameda County Coliseum, Inc. have filed an appeal of that decision. The judgment has been fully stayed pending the outcome of the appeal. A decision on the appeal is not expected until early 2006.

Debt service requirements for the Coliseum Authority debt are as follows (in thousands):

For the period	Stadium Debt		Arena Debt	
ending June 30,	Principal	Interest	Principal	Interest
2006	$ 6,100	$ 6,949	$ 2,700	$ 7,938
2007	5,500	6,606	3,000	7,766
2008	5,800	6,289	3,100	7,575
2009	6,200	5,924	3,300	7,377
2010	6,700	5,563	3,600	7,166
2011-2015	39,500	23,337	22,200	32,037
2016-2020	49,600	15,674	31,000	23,862
2021-2025	62,900	6,031	43,900	12,357
2026	-	-	10,800	697
TOTAL	$182,300	$ 76,373	$123,600	$106,775

Complete financial statements for the Authority can be obtained from the County Auditor-Controller's office at 1221 Oak Street, Oakland, CA 94612.

Under the joint exercise of power agreement, which formed the Authority, the City is responsible for funding up to 50% of the Authority's operating costs and debt service requirements, to the extent such funding is necessary. During the year ended June 30, 2005, the City made contributions of $9,650,000 to fund its share of operating deficits and debt service payments of the Authority.

The Coliseum Authority has anticipated a deficit for operating costs and repayment of its Stadium bonds, such that the City and County may have to contribute to base rental payments. Of the $20.5 million appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute $11,150,000 for the 2005-06 fiscal year. There are many uncertainties in the estimation of revenues for the Authority beyond one year into the future; therefore, the City has established a liability to fund the Authority deficit in the statement of net assets in an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of $91,150,000. The City has not established a contingent liability for the Arena Bonds because management is of the opinion that revenues from the Arena, including payments from the Warriors and revenues from Arena operations, will be sufficient to cover the debt payments.

(16) PENSION PLANS

The City has three defined benefit retirement plans: Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS) and California Public Employees' Retirement System (PERS). PFRS and OMERS are closed plans that cover employees hired prior to July 1976 and September 1970, respectively. These two plans are considered part of the City's reporting entity and are included in the City's basic financial statements as pension trust funds. City employees hired subsequent to the plans' closure dates are covered by PERS, which is administered by the State of California.

Member and employer contributions are recognized in the period in which the contributions are due pursuant to formal commitments, as well as contractual or statutory requirements, and benefits and refunds are recognized when due and payable, in accordance with the terms of the plans.

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are reported based on the remaining principal balances which approximate the value of future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on prices in a competitive market as determined by a specialist.

	PFRS	OMERS	PERS
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	July 01, 2004	July 01, 2003	June 30, 2004

Significant actuarial assumptions

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the City's actuarial accrued liability.

	PFRS	OMERS	PERS
Investment rate of return	8.0%	8.0%	8.25%
Payroll growth	4.5%	3.0%	3.75%
Inflation rate	3.5%	3.5%	3.5%

Police and Fire Retirement System (PFRS)

PFRS provides death, disability and service retirement benefits to uniformed employees and their beneficiaries. Members who complete at least 25 years of service, or 20 years of service and have reached the age of 55, or have reached the age of 65, are eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3% of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees will receive reduced benefits based on the number of years of service. Benefit provisions and all other requirements are established by the City Charter (Charter). The June 30, 2005, stand alone financial statements are available by contacting the City Administrator's Office, One Frank Ogawa Plaza, Oakland, California 94612.

In accordance with the Charter, active members of PFRS contribute a percentage of earned salaries based upon entry age as determined by the City's consulting actuary. During the years ended June 30, 2005 and 2004, these contributions ranged from 5.47% to 6.05%. By statute, employee contributions are limited to 13% of earned salaries. Employee contributions are refundable with interest at 4% per annum if an employee elects to withdraw from PFRS upon termination of employment with the City.

The City contributes, at a minimum, such amounts that are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to PFRS members. The City is required to fund all liabilities for future benefits for all members by June 30, 2026. In order to do so, the City makes contributions at rates established by consulting actuaries based upon plan valuations using various assumptions as to salary progression, inflation, and rate of return on investments. The City's contributions are based on a level percentage of all uniformed employees' compensation. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefits. The City issued pension obligation bonds in February 1997 to fund PFRS through 2011. Bond proceeds in the amount of $417,173,300 were contributed in fiscal 1997 and, as a result, no employer contributions are required through fiscal year 2011.

For the year ended June 30, 2005, employee contributions to PFRS totaling $24,236 were made in accordance with actuarially determined contribution requirements.

The City's actuaries do not make an allocation of the contribution amount between normal cost and the unfunded actuarial liability because the plan is closed. The actuarial calculations are based on the aggregate cost method and the asset valuation method is on the market value basis. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

The City's annual pension cost and prepaid asset, computed in accordance with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," for fiscal year ended June 30, 2005, were as follows:

Pension asset, beginning of year	$381,369,695
Plus interest on pension asset	30,509,576
Less adjustment to the annual required contribution	(37,386,460)
Plus pension contribution	17,709,888
Pension asset, end of year	$392,202,699

The following table shows the City's annual pension cost and the percentage contributed for the fiscal year 2005 and each of the two preceding years:

Fiscal Year Ended June 30	Annual Pension Cost	Percentage (%) Contributed	Net Pension Asset
2003	$5,895,820	—	$387,737,180
2004	6,367,485	—	381,369,695
2005	10,833,004	—	392,202,699

Annual contribution requirement, subsequent to receipt of pension obligation bond proceeds, is zero through the year 2011.

Oakland Municipal Employees Retirement System (OMERS)

OMERS provides death, disability and service retirement benefits to participants of the plan. Members who complete at least 20 years of service and have reached the age of 52, or who complete at least 5 years of service and reach the age of 60, are eligible for retirement benefits. The retirement allowance is calculated on a basis which takes into account the final three-years' average compensation, age and the number of years of service. Benefit provisions and all other requirements are established by the Charter. The June 30, 2005, stand alone financial statements are available by contacting by the City Administrator's Office, One Frank Ogawa Plaza, Oakland, California 94612.

Active members contribute a percentage of earned salaries based upon entry age as determined by consulting actuaries. During the years ended June 30, 2005 and 2004, the employees' contribution rate was 5.33%. Employee contributions are refundable with interest at 4.50% per annum if an employee elects to withdraw from the plan upon termination of employment with the City. Because of the Retirement System's current funding status, the City is currently not required to make contributions to OMERS. The actuarial calculations are computed using the "aggregate cost method" and the asset valuation is on a market value basis. Under this method, the normal cost is the actuarial present value of a member's benefit divided by the member's expected future working lifetime. The funding of the unfunded actuarial accrued liability is based on a level percentage of payroll over a period ending July 1, 2020, as required by the City Charter.

California Public Employees Retirement System (PERS)

Plan Description

The City of Oakland contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office—400 P Street, Sacramento, CA 95814. A separate report for the City's plan is not available.

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 7.438% for non-safety employees and 29.178% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 2004-05, the City's annual pension cost of $87,441,278 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service (3.75% to 14.20%), and (c) payroll growth of 3.75%. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value).

PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a closed 20 year period.

Three-Year Trend Information for PERS
(in millions)

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	$ 37.0	100%	—
2004	48.4	100	—
2005	87.4	100	—

(17) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The City has three programs in place to partially pay health insurance premiums for certain classes of retirees from City employment.

The City pays part of the health insurance premiums for all retirees from City employment receiving a pension annuity earned through City service and participating in a City-sponsored PERS health benefit plan on a pay-as-you-go basis. Approximately $2,639,614 was paid on behalf of 767 retirees under this program for the year ended June 30, 2005.

(18) COMMITMENTS AND CONTINGENT LIABILITIES

Construction Commitments

Primary Government

The City has committed to funding in the amount of $64,115,918 to a number of capital improvement projects for fiscal years 2004-05 to 2005-06.

Discretely Presented Component Unit

The Port anticipates spending $652,700,000 through June 2008 for its capital improvement program. The most significant Aviation projects are the terminal expansion and renovation, apron reconstruction, parking, roadway and security improvements. The most significant Maritime projects are the 50-foot channel deepening; acquisition and conversion of Oakland Army Base; and the modernization, expansion, and renovation of wharves and terminals.

Other major renovation and expansion projects are in the preliminary planning phase for the Aviation and Maritime Divisions. These projects will not be included in the Capital Improvement Program until they are determined to be feasible.

As of June 30, 2005, the Port has firm commitments for the acquisition and construction of assets as follows (in thousands):

Maritime	$ 32,773
Aviation	134,501
Commercial real estate	1,801
Total	$169,075

The most significant projects for which the Port has contractual commitments are airport terminal expansion of $94,392,000; and modernization of maritime wharves and terminals new cranes of $12,350,000.

Power Purchases

The Port of Oakland purchases electrical power for resale and self-consumption at the Airport, and at Port Maritime facilities located at the former Navy Fleet and Industrial Supply Center Oakland and the former Oakland Army Base. The Port determines needs and commits to purchase contracts with power providers in advance. The total purchase commitment at June 30, 2005 is approximately $3,000,000.

Other Commitments

Primary Government

As of June 30, 2005, the Agency has entered into contractual commitments of $3,630,167 for materials and services relating to various projects. These commitments and future costs will be funded by current available funds, tax increment revenue and other sources.

At June 30, 2005, the Agency was committed to fund $19,879,936 in loans and had issued $1,648,600 in letters of credit in connection with several low and moderate-income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City.

The Agency is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the government carries commercial insurance. Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The State of California adopted legislation mandating that local government shifts a portion of their property tax revenue share to the Educational Revenue Augmentation Fund (ERAF) to support public schools. For fiscal year 2005-07, the Agency included in its Adopted Budget an ERAF shift of $9,560,838.

The City is also liable for environmental remediation cost of about $5,499,000 as of June 30, 2005 for the Agency's Uptown Project and its Edgewater Service Center.

Discretely Presented Component Unit

The Port is required to comply with a number of federal, state and local laws and regulations designed to protect human health, safety and the environment. In conforming to these laws and the implementing regulations, the Port has instituted a number of compliance programs and procedures.

It is the Port's intent that its environmental compliance programs be compliant with regulatory and legal requirements while effectively managing financial resources.

The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination.

As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues for a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods, current estimates of environmental liabilities could materially change, causing expense to the Port.

A summary of the environmental liability accounts, included within the financial statements at June 30, 2005, is as follows (in thousands):

Environmental remediation	$ 6,727
Miscellaneous compliance	218
Total environmental liabilities	$ 6,945

Oakland Base Reuse Authority

Commitments and Contingencies

Environmental Remediaton

Land conveyed to OBRA from the Army may be subject to environmental remediation as required by Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, OBRA is responsible for the first $13.0 million of environmental remediation costs; including environmental remediation insurance. OBRA has received a federal grant of $13 million to pay for the above-mentioned environmental remediation costs. Of this grant amount, $5 million has been received.

The next $11.5 million of environmental remediation costs are to be shared equally by OBRA and the Port. The next $9 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to $30 million in additional environmental remediation-related costs. OBRA and the Port have agreed to share equally in any environmental remediation-related costs above $21 million that are not covered by insurance.

OBRA management believes that none of the estimated environmental remediation costs will cause the recorded amounts any properties held for resale to exceed their estimated net realizable values. Accordingly, no provisions have been made in the financial statements for any related environmental remediation liabilities.

Other Commitments and Contingencies

OBRA and the Port have agreed to share equally in certain expenses related to the conveyance of the Economic Development Conveyance property. As of December 20, 2004, OBRA and the Port have paid a total of $5.7 million to the Workforce Collaborative. OBRA could incur liabilities of up to $2.55 million if the Port does not pay its share of the remaining $5.1 million due to the Workforce Cooperative. No provisions have been made to reflect any contingent liabilities should the Port not pay its share of post-conveyance liabilities.

As of June 30, 2005, OBRA share of the remaining liability to the Workforce Collaborative is $3.6 million. OBRA has set aside in escrow $2.25 million on behalf of the Workforce Collaborative.

OBRA is a cross-defendant in a lawsuit arising in the normal course of business. The ultimate outcome of the matter is not presently determinable. The cross-claim is being defended vigorously, and, in the opinion of OBRA, the action when finally adjudicated will not have a material adverse effect on the financial position of OBRA.

(19) DEFICIT FUND BALANCES/NET ASSETS

As of June 30, 2005, the following funds reported deficits in fund balance/net assets (in thousands):

Federal/State Grant Fund	$ (2,460)
Special Revenue - ORA Projects	(4,230)
Debt Service – Special Revenue Bonds	(1,454)

The City’s federal/state grant fund deficit is expected to be cured through drawdown and collection of federal/state reimbursements. The ORA projects fund deficit is expected to be cured by reimbursements from the Agency. The Special Revenue Bonds deficit will be cleared by transferring in sufficient funds to cover debt service payments.

Internal Service:	
Facilities	$ (13,633)
Central Stores	(5,918)

The City's facilities and central stores funds deficits are expected to be funded through increased user charges for future years.

(20) SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

On July 19, 2005, the City issued tax and revenue anticipation notes payable of $70,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 2.62%. Principal and interest are due and payable on July 17, 2006.

Multifamily Housing Revenue Bonds (Uptown Apartments Project), 2005 Series A

On October 28, 2005 the Redevelopment Agency of the City of Oakland (the "Agency") issued $160,000,000 of Multifamily Housing Revenue Bonds (Uptown Apartments Project), 2005 Series A ("2005 Bonds"). The Agency acted as a conduit issuer to provide funds to make a loan to Uptown Housing Partners, L.P., a California limited partnership, in order to finance, along with certain other amounts, the construction, and equipping of the multifamily rental housing development located in Oakland, California (the "Project"). A portion of the units in the Project will be reserved for low-income tenants. The 2005 Bonds, set to mature on October 1, 2050, were issued as a private placement with an effective interest rate of 6.20%.

The 2005 Bonds do not constitute an indebtedness of the Agency as they were issued a conduit financing; neither the full faith and credit nor taxing authority of the Agency, State if California, or any political subdivision is obligated for the payment of the principal or interest on the 2005 Bonds. The 2005 Bonds are payable solely from revenue sources and receipts defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to bond indenture.

PERS ACTUARIAL VALUATION

SCHEDULE OF FUNDING PROGRESS

The schedule of funding progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

PUBLIC SAFETY RETIREMENT PLAN (POLICE AND FIRE)

Valuation Date July 1,	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a-b)/c]
2002	$563,199,567	$373,263,858	$189,935,709	66.3%	$104,070,500	182.5%
2003	631,484,014	454,728,659	176,755,355	72.0%	111,041,143	159.2%
2004	730,092,603	529,461,015	200,631,588	72.5%	115,452,259	173.8%

MISCELLANEOUS RETIREMENT PLAN

Valuation Date July 1,	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) Liability (a-b)	Funded Status (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a-b)/c]
2002	$952,399,380	$1,003,318,723	$(50,919,343)	105.3%	$197,383,330	(25.8%)
2003	1,197,321,821	1,010,654,872	186,666,949	84.4%	207,930,860	89.8%
2004	1,259,667,702	1,066,027,320	193,640,382	84.6%	216,320,251	89.5%

(1) BUDGETARY DATA

In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. The City Charter prohibits expending funds for which there is no legal appropriation. Therefore, the City is required to adopt budgets for all City funds.

Prior to July 1, the original adopted budget is finalized through the passage of a resolution by the City Council. The level of legal budgetary control by the City Council is established at the fund level. For management purposes, the budget is controlled at the departmental level of expenditure within funds.

In June 2003, the City Council approved the City's fourth two-year budget for fiscal years 2003-04 and 2004-05. Although appropriations are adopted for a 24-month period, they are divided into two one-year spending plans. Agencies/departments ending the first year with budgetary non-project surplus, according to Council policy, will be allowed to carry-forward 1/3 for their operating budget, 1/3 for their capital spending, and 1/3 for reverting to the General Fund balance.

The final budgetary data presented in the required supplementary information reflects approved changes to the original 2004-05 budget. Certain projects are appropriated on a multi-year rather than annual basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year with the approval of the City Administrator.

Transfers of appropriations between funds must be approved by the City Council. Supplemental appropriations financed by unanticipated revenues must be approved by the City Council.

Transfers of appropriations between projects within the same fund must be approved by the City Administrator. Final budget amounts reported in the required supplementary information reflect both the appropriation changes approved by the City Council and the transfers approved by the City Administrator.

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting which is substantially the same as GAAP except as to certain investment earnings.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds that are excluded from budgetary reporting are:

Major Funds

Federal and State Grants
Oakland Redevelopment Agency
Municipal Capital Improvement

Nonmajor Funds

Special Revenue Funds
- ORA Projects
- Parks and Recreation and Cultural

While the City adopts budgets for all funds, the budget to actual comparisons for proprietary and fiduciary funds are not presented because some projects and programs are adopted on a multi-year basis.

CITY OF OAKLAND
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
REVENUES				
Taxes:				
Property	$108,872	$ 130,886	$143,436	$ 12,550
State:				
Sales and use	41,410	41,410	41,651	241
Motor vehicle in-lieu	24,330	2,316	9,656	7,340
Local:				
Business license	44,660	44,660	43,902	(758)
Utility consumption	48,607	48,607	49,781	1,174
Real estate transfer	47,010	47,010	77,722	30,712
Transient occupancy	10,130	10,130	10,926	796
Parking	9,521	9,521	7,029	(2,492)
Franchise	11,676	11,676	11,128	(548)
Licenses and permits	14,742	14,173	15,652	1,479
Fines and penalties	24,552	24,599	24,632	33
Interest and investment income	-	-	20,845	20,845
Charges for services	61,134	63,899	66,375	2,476
Federal and state grants and subventions	2,229	2,546	591	(1,955)
Annuity income	16,308	16,308	-	(16,308)
Other	33,606	37,482	21,896	(15,586)
TOTAL REVENUES	498,787	505,223	545,222	39,999
EXPENDITURES				
Current:				
Elected and Appointed Officials-				
Mayor	1,742	1,742	1,552	190
Council	2,463	2,433	2,279	154
City Manager	16,590	10,085	9,276	809
City Attorney	7,605	7,985	8,055	(70)
City Auditor	1,083	1,093	1,106	(13)
City Clerk	2,091	2,179	1,644	535
Agencies/Departments:				
Personnel Resource Management	3,882	3,953	3,726	227
Information Technology	7,857	7,705	7,853	(148)
Financial Services	18,276	19,071	17,942	1,129
Police Services	157,884	159,356	171,639	(12,283)
Fire Services	90,540	91,575	90,442	1,133
Life Enrichment:				
Administration	-	14	7	7
Parks and Recreation	12,639	16,915	13,097	3,818
Library	10,554	10,729	10,478	251
Museum	7,016	7,078	7,089	(11)
Aging & Health and Human Services	6,301	8,143	6,910	1,233
Community and Economic Development	21,813	24,219	18,902	5,317
Public Works	30,061	34,936	28,909	6,027
Other	17,995	21,125	29,260	(8,135)
Capital outlay	3	1,105	1,184	(79)
Debt service:				
Principal repayment	214	1,671	670	1,001
Interest charges	-	241	123	118
TOTAL EXPENDITURES	416,609	433,353	432,143	1,210
EXCESS OF REVENUES OVER EXPENDITURES	82,178	71,870	113,079	41,209
OTHER FINANCING SOURCES (USES)				
Property sale proceeds	-	61	349	288
Transfers in	14,088	14,088	27,506	13,418
Transfers out	(93,211)	(93,211)	(82,405)	10,806
TOTAL OTHER FINANCING USES, NET	(79,123)	(79,062)	(54,550)	24,512
NET CHANGE IN FUND BALANCE	3,055	(7,192)	58,529	65,721
Fund balances - beginning	233,308	233,308	233,308	-
FUND BALANCES - ENDING	$236,363	$ 226,116	$291,837	$ 65,721

The notes to the required supplementary information are an integral part of this schedule.

(2) RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The governmental fund financial statements have been prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The "Budgetary Comparison Schedule – General Fund" has been prepared on a budgetary basis, which is different from GAAP.

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget to actual comparison schedule in accordance with the budgetary process (Budgetary Basis) to provide a meaningful comparison with the budget.

The main difference between Budgetary Basis "actual" and GAAP basis is a timing difference:

> In October 2001, the City entered into a debt service deposit agreement with a third party whereby the City received approximately $9.6 million in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the related debt was due to the bondholders. The compensation to the City was recorded as revenue in fiscal year 2002 when received on a budgetary basis. On a GAAP basis, the revenue was deferred and is being recognized over the 21-year life of the agreement. Amortization for the year ended June 30, 2005, was $592,208.

The following schedule is a reconciliation of the GAAP and budgetary results of operations (in thousands):

	General Fund
Net change in fund balance – budgetary basis	$ 58,529
Amortization of debt service deposit agreement	592
Net change in fund balance – GAAP basis	$ 59,121

The General Fund's fund balance on a Budgetary Basis is reconciled to that on a GAAP basis as of June 30, 2005, which is as follows (in thousands):

	General Fund
Fund Balance, June 30, 2005 - Budgetary Basis	$291,837
Unamortized debt service deposit agreement	(7,569)
Fund Balance, June 30, 2005 – GAAP Basis	$284,268

General Fund Budgetary Basis Fund Balance at June 30, 2005, is composed of the following (in thousands):

	General Fund
Reserved:	
Encumbrances	$ 4,115
Long-term receivables	6,000
Debt service	3,379
Pension obligations	138,000
Unreserved reported in:	
General fund	140,343
TOTAL FUND BALANCES	$291,837

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The Honorable Mayor and Members
Of the City Council
City of Oakland, California

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 9, 2005. We did not audit the financial statements of the Oakland Base Reuse Authority (OBRA), which represent 4%, 11%, and 3%, respectively, of the assets, net assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for OBRA, is based on the report of the other auditors. As discussed in Note 2 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 9, 2005.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP
Certified Public Accountants

Walnut Creek, California
December 9, 2005

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The Honorable Mayor and Members
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City of Oakland, California

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Oakland, California (City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port of Oakland (Port), and the Oakland Base Reuse Authority (OBRA) that expended $15,826,748 and $1,189,594 in federal awards respectively, that are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2005. Our audit of compliance, described below, did not include the operations of the Port or OBRA because we audited and reported on the Port's compliance in accordance with OMB Circular A-133 separately, and because OBRA engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

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In our opinion, the City complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2005-01.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, City management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias, Gini & Company LLP

Certified Public Accountants

Walnut Creek, California
February 14, 2006

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the State of California				
Department of Education-				
Food Stamps	10.551	FSOR-05-CA-1	$ 30,220	$ 29,500
Child & Adult Care Food Program	10.558	01-1135-1J	568,049	-
Summer Food Service Program for Children	10.559	01-80102V	173,088	138,289
Empowerment Zone Program	10.772	C14043	226	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			**771,583**	**167,789**
U.S. DEPARTMENT OF COMMERCE				
Economic Adjustment Assistance-				
EDA Brownfields Planning Grant	11.307	07-39-02873	65,000	-
		07-79-04941	56,250	-
TOTAL U.S. DEPARTMENT OF COMMERCE			**121,250**	**-**
U.S. DEPARTMENT OF DEFENSE				
Community Economic Adjustment Planning Assistance-				
Military Base Conversion	12.607	C749-03898	1,103	-
TOTAL U.S. DEPARTMENT OF DEFENSE			**1,103**	**-**
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT				
Community Development Block Grants/				
Entitlement Grants	14.218	B-01-MC-06-0013	7,499,326	4,835,011
		B-81-AA-06-0038(4)	59,442	-
			7,558,768	4,835,011
Rental Housing Rehabilitation	14.230	P-87-MC-06-0209	74,205	-
Emergency Shelter Grants Program	14.231	S00-MC-06-0013	12,464	-
		S02-MC-06-0013	272,051	248,434
		S99-MC-06-0013	14,928	-
			299,443	248,434
Supportive Housing Program	14.235	CA39T91-1026	1,516	-
		CA-39B02005	103,293	103,293
		CA39T91-1026	13,175	13,157
		CA01B02002	463,814	463,814
		CA-01B202026-CA5089	44,480	44,480
		CA-01B202016-CA5065	790,751	738,481
		CA01B03003	88,399	64,602
			1,505,428	1,427,827
HOME Investment Partnerships Program	14.239	M01-MC060208	570,376	-
		Agreement	343,667	343,667
		Agreement	100,000	-
		Agreement	1,499,000	-
		Agreement	900,637	-
		Agreement	1,499,000	-
		M99-MC60208	384,610	4,164
		Program Income	(2,106,550)	-
			3,190,740	347,831

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
Housing Opportunities for Persons with Aids	14.241	CA-H02-F001	$ 1,448,169	$ 1,443,540
		CA-H03-F001	176,964	160,933
		CA39H97-F070	631	-
		CA39H99-F001	39,459	39,459
		CA-H02-F001	17,020	-
			1,682,243	1,643,932
Community Development Block Grants/ Economic Development Initiative	14.246	B94-MC-06-0013-A/ E95-EZ-06-0001	443,297	- 178,713
Community Development Block Grants: Section 108 Loan Guarantees	14.248	B93-MC-06-0013	2,420,388	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALAG0033-95	9,900	9,900
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			**17,184,412**	**8,691,648**
U.S. DEPARTMENT OF THE INTERIOR				
Urban Park and Recreation Recovery Program	15.919	06CTY24800201	9,098	-
		06CTY24800101	63,046	802
TOTAL U.S. DEPARTMENT OF THE INTERIOR			**72,144**	**802**
U.S. DEPARTMENT OF JUSTICE				
Offender Reentry Program	16.202	2002RE-CX-0055	297,443	137,545
Gang-Free Schools and Communities: Community-Based Gang Intervention	16.544	ATC020169	26,214	-
National Institute of Justice Research, Evaluation and Development Project Grants	16.560	2003-DNBX-0066	115,659	-
		CQ03027503	9,171	-
		2004-DN-BX-K077	64,694	-
			189,524	-
Federal Surplus Property Transfer Program- Federal Asset Forfeiture	16.578	CA0010900	39,789	-
Local Law Enforcement Block Grants Program	16.592	98-LB-VX-2565	3,977	-
		99-LB-VX-7889	17,149	-
		00-LB-BX-1768	94,692	-
		01-LB-BX-2311	14,760	-
		02-LB-BX-2019	470,301	47,652
		03-LB-BX-1809	661,973	-
		-	263,699	133,367
			1,526,551	181,019
Executive Office for Weed and Seed	16.595	2002-WS-QX-0091	191,512	97,961
		97-WS-QX-0047	1,417	-
			192,929	97,961

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
Community Prosecution and Project Safe Neighborhoods	16.609	2003-GPCX0150	$ 113,842	$ 44,372
Public Safety Partnership and Community Policing Grants	16.710			
COPS More 98 Award		98CLQX0160	2,520,170	2,514,777
COPS More 01 Award		2001CLWX0014	9,721	-
COPS Universal Hiring		2001ULWX0022	209,715	-
Creating Culture		2002HSWX0005	2,448	-
COPS Secure in School		2002CKWX0237	42,643	-
			2,784,697	2,514,777
Police Corps	16.712	2001 SHWX0375	304,578	-
Drug Prevention Program-DEA East Bay Task Force	16.728	Agenda Report	219	-
TOTAL U.S. DEPARTMENT OF JUSTICE			**5,475,786**	**2,975,674**
U.S. DEPARTMENT OF LABOR				
Senior Community Service Employment Program				-
Passed Through the Senior Service America, Inc.	17.235	SSAI Agreement	1,246,040	-
Passed Through the State of California				
Employment Development Department-				
Welfare-to-Work Grants to State and Localities	17.253	Y-6911-8-00-81-60	38	-
WIA Adult Program	17.258	R069124	1,057,370	93,031
		R3588740	1,438,726	1,438,726
		R485294	255,226	255,226
			2,751,322	1,786,983
WIA Youth Activities	17.259	R485294	255,000	255,000
		R380522	2,299	2,299
		R588740	1,417,098	1,417,098
			1,674,397	1,674,397
WIA Dislocated Workers	17.260	R588740	1,540,904	1,540,904
		R380522	19,941	19,941
		R485294	206,796	206,796
			1,767,641	1,767,641
Total WIA Cluster			6,193,360	5,229,021
Youth Opportunity Grants	17.263	AF-14153-04-60	529,472	-
TOTAL U.S. DEPARTMENT OF LABOR			**7,968,910**	**5,229,021**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF TRANSPORTATION				
Passed through the State of California				
Department of Transportation-				
Highway Planning and Construction:	20.205			
Mandela Parkway Tea		Agenda	$ 36,122	$ -
Seismic Retrofit Three Bridges		BRLZ-5012(002)	1,424,005	-
Acorn-Prescott L/P		CML-5012(041)	69,414	-
Lower Grand Ped/Bulb out		CML5012 (058)	90,180	-
Federally Funded Streets		-	90,000	-
High St/Nimitz Freeway Improvement		M-027(1)	1,168	-
3rd St. Extension		RPSTPO-5012(042)	44,550	-
98th Avenue Unit 3 ISTEA Fund		STPL-5012(001)	346,624	-
Lake Merritt Canal Bridge		STPL-5012(037)	15,599	-
Sidewalk Repair STPL		STPL-5012(047)	718,792	-
Rehab of Martin Luther King Way		STPL-5012(055)	1,043	-
Citywide Curb Ramps		STPL-5012(060)	96,113	-
RABA Resurfacing STP		STPL-5012(061)	138,551	-
Bridges-E12th/14th Grad.		STPLZ-501(026)	15,371	-
Bridges-Park/Leimert Seismic		STPLZ-501(025)	18,406	
Bridges-4 Seismic Retrofit		STPLZ-5012(028)	68,467	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			**3,174,405**	**-**
ENVIRONMENTAL PROTECTION AGENCY				
Brownfields Training Research and Cleanup Cooperative Agreements	66.818	BL98968501-0	200,000	-
TOTAL ENVIRONMENTAL PROTECTION AGENCY			**200,000**	**-**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. DEPARTMENT OF EDUCATION				
Passed Through the State of California				
State Library-				
Even Start: State Educational Agencies	84.213	E-116-01	$ 241,199	$ 241,199
		E-116-02	163,506	9,065
		E-116-03	282,128	9,065
TOTAL U.S. DEPARTMENT OF EDUCATION			**686,833**	**259,329**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Funding:				
Comprehensive Community Mental Health Services				
for Children with Serious Emotional Disturbances	93.104	1 U79SM56051-01	426,469	404,828
		6 U79SM56051-02-1	461,087	461,087
			887,556	865,915
Head Start	93.600	01-1135-IJ	323	-
		09CH9006/28	241	-
		09CH9006/33	14,599,563	4,738,241
		282-99-0033	79,097	-
			14,679,224	4,738,241
Passed Through the State of California				
Department of Economic Opportunity:				
National Family Caregiver Support	93.052	CMSXZKYS	11	-
		Agreement	10,362	-
		C93-1058	953	-
		SE05-159	30,748	-
			42,074	-
Passed Through the State of California				
Department of Community Service and Development:				
Community Services Block Grant	93.569	04F-4454	420,400	206,975
		04F-4515	39,909	-
		05F-4629	279,702	137,471
			740,011	344,446
Passed Through the State of California				
Department of Aging:				
Medical Assistance Program (Medicaid)	93.778	MS-0001-01	851	-
		MS-0203-01	1,476	-
		MS-0304-01	26,531	30,163
		MS-0405-01	1,557,681	326,473
		MS-0506-01	1,599	1,599
			1,588,138	358,235
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			**17,937,003**	**6,306,837**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
For the fiscal year ended June 30, 2005

FEDERAL GRANTOR/PROGRAM TITLE	CFDA Number	Grant Number	Expenditures	Amount Passed-through to SubRecipients
U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
Foster Grandparent Program	94.011	03SFPCA010	$ 28,379	$ -
Senior Companion Program	94.016	03SCPCA007	314,224	-
TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES			**342,603**	**-**
U.S. DEPARTMENT OF HOMELAND SECURITY				
State Domestic Preparedness Equipment Support Program	97.004	2004-45OESID# 001-00000	3,057	1,090
Urban Area Security Initiative	97.008	2004-14 OESID# 001-53000	98,591	-
		2004-14 OESID# 001-53000	22,857	-
		2004-14 OESID# 001-53000	6,491	-
		2004-14 OESID# 001-53000	4,799	-
		2004-14 OESID# 001-53000	2,826	-
		2005-15	562	-
			136,126	-
National Urban Search and Rescue (US&R) Response System	97.025	EMP-2003-CA-0047	59,041	52,838
		EMW-2003-CA-0300	616,019	131,035
		2005-15	319,540	43,440
			994,600	227,313
Hazard mitigation grant	97.039	EMW-97-GR-0521	21,086	-
	97.071	EW-2004-GR-0606	147,795	-
		233-03-0095	12,688	
		EM0416	14,963	
		OES 98-01-089	5,716	-
			181,162	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			**1,336,031**	**228,403**
TOTAL FEDERAL AWARDS			**$ 55,272,063**	**$ 23,859,503**

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF OAKLAND
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Note 1 – General

The accompanying schedule of expenditures of federal awards (SEFA) presents the expenditures of all federal award programs of the City of Oakland, California (City) for the year ended June 30, 2005, except as described in Note 4 below. The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

Note 2 – Basis of Accounting

The accompanying SEFA is presented using the modified accrual basis of accounting for grants as described in Note 2 to the City's basic financial statements.

Note 3 – Relationship to the Financial Statements

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the general and special revenue funds.

Note 4 – Discrete Component Units Federal Expenditures not included in the SEFA

The Port of Oakland's (Port) federal expenditures are excluded from the SEFA because such expenditures are reported separately. Expenditures for the programs of the Port listed below are taken from the separate single audit report. The programs of the Port are as follows:

Program Title	CFDA Number	Federal Expenditures
Department of Transportation		
Airport Improvement Program	20.106	$ 14,697,418
Highway Planning & Construction	20.205	267,943
Joint Intermodal Terminal Construction	20.205	32,749
Port Security Grant	20.401	728,638
Total Department of Transportation		15,726,748
Department of Energy		
State Energy Program	81.041	100,000
Total Federal Expenditures		$ 15,826,748

Note 4 –Discrete Component Units Federal Expenditures not included in the SEFA (Continued)

The Oakland Base Reuse Authority (OBRA) federal expenditures are excluded from the SEFA because OBRA engaged other auditors to perform an audit in accordance with OMB Circular A-133. Expenditures for the programs of OBRA listed below are taken from the SEFA audited by other auditors. The programs of the OBRA are as follows:

Program Title	CFDA Number	Federal Expenditures
Department of Commerce		
Economic Adjustment Assistance	11.307	$ 253,077
Department of Defense		
Environmental Services Co-operative Agreement	12.999	936,517
Total Federal Expenditures		$ 1,189,594

Note 5 – Loans Outstanding

The City participates in certain federal award programs of the U.S. Department of Housing and Urban Development (HUD) that sponsor revolving loan and loan guarantee programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. These repayments are made available for new loans. The following is a summary of the loan programs maintained by the City along with the outstanding loan receivable balances at June 30, 2005:

Program Title	CFDA#	Amount Outstanding	PY loans w/ continuing compliance requirements	New Loans
Economic Adjustment Assistance	11.307	$ 282,980	$ 89,332	$ 193,648
Housing Development Grants	14.174*	17,514,645	17,514,645	-
Community Block Development Grants	14.218	23,349,158	23,349,158	-
Rental Housing Rehabilitation	14.230*	1,198,972	1,198,972	-
HOME Investment Partnerships Program	14.239	30,762,621	25,506,221	5,256,400
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	1,077,654	1,077,654	-
Community Block Development Grants Section 108 Loan Guarantees	14.248	9,411,060	9,351,060	60,000
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	158,204	158,204	-
Total		$ 83,755,294	$ 78,245,246	$ 5,510,048

* - This federal program has been discontinued for future projects. However, there are still loans outstanding held by the City from projects entered into in prior years.

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CITY OF OAKLAND
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

CFDA Number	Program name
14.218	Community Development Block Grants/Entitlement Grants
14.239	Home Investment Partnerships Program
16.592	Local Law Enforcement Block Grants Program
17.235	Senior Community Service Employment Program
84.213	Even Start: State Educational Agencies
93.569	Community Services Block Grant
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:	$1,658,162
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III Federal Award Findings and Questioned Costs

Finding No. 2005-01 Community Development Block Grants/Entitlement Grants (CFDA #14.218) – Subrecipient Monitoring

In accordance with 24 CFR Section 570.503, grantees must monitor grant and sub-grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

During our testing of internal controls over and compliance with subrecipient monitoring requirements, we noted that 3 out of 20 subrecipient files had monitoring reports with no follow-up regarding the findings reported and recommendations made for improvement. Without timely follow up, the City cannot ensure that the subrecipients are complying with program requirements.

Questioned Costs:

Undeterminable

Recommendation:

The City has adequate policies and procedures in place to properly monitor its subrecipents. We recommend that management of the City establish oversight procedures to ensure that staff follow the policies and procedures as designed.

Management Response:

The City has a well documented fiscal monitoring process in place which includes incremental follow up notices on any findings and verification of corrective actions as well. The oversight in following up on the three cases cited is due to personnel turnover in the grant accounting area, the timing of the recruitment and training of the replacement staff, and the learning curve as they proceed to perform field monitoring work.

CITY OF OAKLAND
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2005

Reference Number:	**2004-01**
Federal Catalog Number:	93.104 – Community Mental Health Services for Children with Serious Emotional Disturbances
Audit Finding:	Subrecipient Monitoring: In accordance with 24 CFR 85.40 (a), "*Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity*." The City did not identify to its main subrecipient the requirement to have a single audit if federal funding is in excess of $500,000.
Status of Corrective Action:	Corrected.
Reference Number:	**2004-02**
Federal Catalog Number:	14.241 – Housing Opportunities for Persons with AIDS
Audit Finding:	Reporting – In accordance with 24 CFR 574.520(b) *"A grantee shall submit to the federal Department of Housing and Urban Development (HUD) annually a report describing the use of the amounts received, including the number of individuals assisted, the types of assistance, and any other information that HUD may require."* Annual reports are required until all grant funds are expended. During the performance of our testwork over reporting, we noted that the City did not prepare or submit its annual progress report (HUD 40110).
Status of Corrective Action:	Corrected.
Reference Number:	**2004-03**
Federal Catalog Number:	20.205 – Highway Planning & Construction
Audit Finding:	Procurement and suspension and debarment – In accordance with the OMB A-133 federal compliance requirement of procurement, suspension and debarment, non-federal entities are prohibited from contracting with or making subawards under covered transaction to parties that are suspended or debarred whose principals are suspended or debarred. During the performance of our testing of internal controls and compliance over procurement, suspension and debarment requirements, we noted that three of the four contracts sampled did not contain a requirement that the contractor certify they were not suspended or debarred.
Status of Corrective Action:	Corrected.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG) CONTRACT NO. 05F-4629
For the Period January 1, 2005 to June 30, 2005

	Actual	Total Reported [1]	Total Budget
Revenue			
Grant Amount	$ 279,702	$ 257,311	$ 680,593
Interest Income	-	-	-
Total Revenue	$ 279,702	$ 257,311	$ 680,593
Expenditures			
Personnel Costs:			
Salaries and Wages	$ 78,174	$ 81,690	$ 185,464
Fringe Benefits	25,759	22,752	91,518
Subtotal Personnel Costs	103,933	104,442	276,982
Non-Personnel Costs			
Travel	5,001	6,626	15,000
Consumable Supplies	1,270	1,173	3,500
Equipment Lease/Purchase	-	-	-
Consultant Services	-	-	9,486
Sub-Contractors	137,471	131,623	336,000
Other Costs	32,027	13,447	39,625
Subtotal Non-Personnel Costs	175,769	152,869	403,611
Total Expenditures	$ 279,702	$ 257,311	$ 680,593

[1] - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2005 to June 30, 2005.

CITY OF OAKLAND
SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES
STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)
COMMUNITY SERVICE BLOCK GRANT (CSBG) CONTRACT NO. 04F-4454
For the Period January 1, 2004 to June 30, 2005

	Jan. 1, 2004 through June 30, 2004	July 1, 2004 through Dec. 31, 2004	Jan. 1, 2005 through June 30, 2005	Total Actual	Total Reported [1]	Total Budget
Revenue						
Grant Amount	$ 264,695	$ 269,260	$ 128,204	$ 662,159	$ 685,069	$ 685,069
Interest Income	-	-	-	-	-	-
Total Revenue	$ 264,695	$ 269,260	$ 128,204	$ 662,159	$ 685,069	$ 685,069
Expenditures						
Personnel Costs:						
Salaries and Wages	$ 92,293	$ 110,817	$ 9,435	$ 212,545	$ 197,945	$ 197,945
Fringe Benefits	30,541	34,370	5,806	70,717	64,512	64,512
Subtotal Personnel Costs	122,834	145,187	15,241	283,262	262,457	262,457
Non-Personnel Costs						
Travel	7,478	7,558	-	15,036	16,952	16,952
Consumable Supplies	1,884	443	319	2,646	2,646	2,646
Equipment Lease/Purchase	-	-	953	953	953	953
Consultant Services	-	-	-	-	15,000	15,000
Sub-Contractors	108,507	178,055	28,919	315,481	337,665	337,665
Other Costs	23,992	33,431	10,294	67,717	49,396	49,396
Subtotal Non-Personnel Costs	141,861	219,487	40,485	401,833	422,612	422,612
Total Expenditures	$ 264,695	$ 364,674	$ 55,726	$ 685,095	$ 685,069	$ 685,069

[1] - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2004 to June 30, 2005.

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF
ALAMEDA COUNTY AWARDS
For the year ended June 30, 2005

ALAMEDA COUNTY AWARD/PROGRAM TITLE	CONTRACT NUMBER	EXHIBIT/PO NUMBER	EXPENDITURES
DEPARTMENT OF ADULT & AGING SERVICES			
Information and Assistance	C-93-1058	SE02-115	$ (11)
	C-93-1058	SE03-101	(375)
	C-93-1058	SE04-087	2,728
	C-93-1058	SE05-158	39,950
			42,293
Linkages/Respite	C-93-1058	SE99-088	(39)
	C-93-1058	SE01-406	(188)
	C-93-1058	SE02-400	36
	C-93-1058	SE04-146	(178)
	C-93-1058	SE05-156	231,590
			231,221
Senior Companion Program	C-93-1058	SE05-157	18,348
TOTAL DEPARTMENT OF ADULT & AGING SERVICES			**291,862**
HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT			
Continuum of Care Council Activities	C2004-272	N/A	12,051
Winter Shelter Program	C2004-423	N/A	53,632
TOTAL HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT			**65,683**
PUBLIC HEALTH DEPARTMENT			
Tobacco Control Program	CONTRACT	PHSVC-2270	15,000
	CONTRACT	PHSVC-2388	14,478
TOTAL PUBLIC HEALTH DEPARTMENT			**29,478**
DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION			
Henry J. Robinson Multi-Service Center	C2002-552	N/A	203,911
TOTAL DEPARTMENT OF WORKFORCE & BENEFITS ADMINISTRATION			**203,911**
TOTAL ALAMEDA COUNTY AWARDS			**$ 590,935**